



Exploring the Interconnection: Employee Diff, Board Gender Diversity, and Earnings Management

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General Background: The COVID-19 pandemic caused significant economic disruptions, leading to reduced demand and sales across various sectors in Indonesia, including manufacturing. **Specific Background:** This study focuses on manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2022 to investigate the impact of employee difference (diff) and board gender diversity on earnings management. **Knowledge Gap:** Previous research offers conflicting findings on the relationship between board gender diversity and earnings management, necessitating further exploration during the COVID-19 period when layoffs were prevalent. **Aims:** This study aims to empirically assess how employee diff and board gender diversity influence earnings management, contributing to better decision-making by investors and stakeholders. **Results:** The findings indicate that employee diff positively affects earnings management, while board gender diversity does not have a significant impact. **Novelty:** Conducted during the COVID-19 period, this research uniquely considers employee diff as a critical factor in earnings management, reflecting pandemic-related challenges. **Implications:** Investors and stakeholders should focus on employee diff when analyzing financial statements to avoid misinformed decisions, while also recognizing that board gender diversity may not significantly mitigate earnings management practices.

Keywords: Employee Diff, Board Gender Diversity, Earnings Management

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INTRODUCTION

Not only disrupting human health, COVID-19 is also disrupting the health of the global economy, including Indonesia. The economic instability caused by COVID-19 that struck Indonesia caused a decline in Indonesia's economic growth in March 2020 to 2.97%. This percentage decreased by 2.1% when compared to the first quarter of 2019, which had a rate of 5.07%. Until the fourth quarter of 2020, Indonesia recorded a decline in economic growth to minus 2.19% ([Badan Pusat Statistik, 2020b](#)).

This decline in economic growth is due to government regulations to conduct social distancing through lockdowns and stay-at-home. COVID-19 has resulted in a sudden decrease in demand for some companies ([Hassan et al., 2020](#)). Consumption restrictions and rising unemployment rates caused by lockdowns directly impact public demand ([Baldwin & di Mauro, 2020](#)). As a result, several company sectors, such as tourism, manufacturing, trade, and agriculture, were affected. Due to a decrease in public consumption, many companies, including the manufacturing sector, have experienced a decline in sales since the beginning of the pandemic. The decline in sales in the manufacturing sector can be proven by the reduction in Indonesia's Manufacturing Purchasing Managers' Index (PMI) points, which have decreased drastically since the beginning of COVID-19 in Indonesia. In March 2020, Indonesia's Manufacturing PMI points decreased in March 2020 to 45.3 from the previous month with 51.9 points. Then, it fell to 27.5 points in April 2020 ([Databoks, 2021](#)). The decline in this index indicates a decline in demand for the manufacturing sector in Indonesia. The decline in demand led to decreased company profits, and many companies even recorded losses in their financial statements.

Accounting profit is regarded as one of the primary measures of a company's financial performance in financial statements ([Agustin & Widiatmoko, 2022](#)). The discrepancy between the profit generated and what is expected can encourage company managers to carry out earnings management. Apart from having an obligation to fulfill the welfare of creditors and shareholders, managers are also interested in their welfare. Managers can carry out earnings management to benefit themselves so that their performance is still considered good even though the company's condition has decreased profits ([Angelina & Lindrawati, 2022](#)).

Within the company, employee differences are one of the factors that cause earnings management practices ([Tatar & Sujana, 2021](#)). Employee difference is the state in which there is a discrepancy between revenue growth and employee growth ([Oktaviany et al., 2017](#)). As explained in the research of [Brazel et al. \(2009\)](#) in [Bukit & Nasution \(2015\)](#), they found that fraudulent companies had a more significant employee diff than non-fraudulent companies. Managers utilize this to take manipulative actions against financial statements by managing earnings. Managers can modify financial data, such as company profit data, and then adjust it

with non-financial data so that the information can be trusted. However, some non-financial data, such as the number of employees, cannot be adjusted easily and quickly. Gaps between financial and non-financial data raise suspicions that companies are not giving accurate financial statement ([Ames et al., 2012](#)). [Bukit & Nasution \(2015\)](#) and [Purnamawati & Hatane's \(2022\)](#) research findings indicate that employee differences impact earnings management. In comparison, employee differences have no bearing on earnings management, according to [Susanti & Kevin's \(2021\)](#) research.

As top management, directors and commissioners are critical to assisting the organization in realizing its goals and objectives. The director oversees the financial reporting of the company and is actively involved in managing the business and making decisions. To stop managerial opportunistic conduct, the Board of Directors' oversight function is essential ([Saona et al., 2019](#)). However, the Board of Commissioners also plays a part in the Directors' supervisory duty, which allows the Commissioners to monitor every decision and action made by the Board of Directors.

Companies can implement good corporate governance mechanisms to prevent all forms of irregularities in the company, including earnings management activities. According to [Fatimah \(2019\)](#), the supervisory function in the GCG mechanism can be carried out by compiling a diverse board structure (board diversity), including diversity in board gender. The board's composition concerning gender is crucial in assessing the long-term viability of the business ([Velte & Stawinoga, 2017](#)). According to [Eagly et al. \(2003\)](#), behavioral patterns can be impacted by gender differences. Due to the psychological differences between men and women, women are more perceptive to social activities ([Issa & Fang, 2019](#)). Women are more democratic, communicative, participatory, and empathetic toward others to support the belief that women behave more morally ([Rodríguez-Ariza et al., 2017](#)). According to [Budhyarto & Hasnawati's \(2023\)](#) research, they found that gender diversity negatively impacts on earnings management. This opinion is similar to the opinion of [Peni & Vähämaa \(2010\)](#), [Triki Damak \(2018\)](#), and [Orazalin \(2019\)](#) that gender in executives affects earnings management and financial statements. Women are conservative, cautious in making decisions, and have better ethical traits so that they will affect earnings management practices. Their findings contradict those of [Fatimah \(2019\)](#) and [Suciani & Purnama \(2019\)](#), which indicate that gender diversity on the board does not affect earnings management.

The rationale behind this study is the difference in findings from previous researchers regarding the relationship between board gender diversity and employee diff with earnings management. In addition, in contrast to previous studies, this research was conducted during the period of COVID-19 so that each variable used was based on issues that existed at the time of COVID-19. The employee diff variable examined in this study becomes more relevant during COVID-19 with many employees affected by layoffs which of course will

have an impact on company income. The purpose of this study is to show empirically how board gender diversity and employee differences affect earnings management. This research will help guide future academic research and broaden investors' and management's understanding of the variables covered in this study. The practical implications of this research are useful for investors and stakeholders in analyzing factors that can affect financial statements. Financial reports that are free from bias, including earnings management, are needed. This is because reliable and trustworthy financial reports are very important in decision making, especially in the midst of COVID-19 conditions which cause a lot of uncertainty.

The underlying theories in this study are positive accounting theory, agency theory, and upper echelon theory. Positive accounting theory analyzes accounting practices and policies in business and predicts the policies that managers will choose in the future. Authorized and interested parties in the preparation of financial statements must work together to implement these policies and practices (Watts & Zimmerman, 1986). The background of the policy choices made by these managers is of course based on an assessment of what policies will be profitable, whether it benefits the company or themselves.

The actions of managers in making decisions that aim to benefit themselves are discussed in agency theory. According to this theory, conflicts of interest between agents (managers) and principals (owners) often occur in companies. The principal as the person who invests his capital in the company entrusts the capital to be managed by the agent. Here, the agent is responsible for carrying out business operations in accordance with the expectations of the principal and applicable law. However, in practice, the agent's actions in running the business are not always in line with what the principal wants. Agents can act and make decisions without the knowledge of the principal that aim to benefit themselves.

The conflict of interest between management and company owners is not the only thing that affects the decision making taken by managers in managing the company. The characteristics of each individual top manager also affect decision making. In line with upper echelon theory, this theory explains that the level of organizational performance and strategic decisions can be predicted based on the characteristics of the leader. The biases or dispositions of executives-as the most influential parties in the organization-should be considered when determining the reasons behind the actions made by the organization. Executives' interpretations will be shaped by their backgrounds, morals, and personalities. The strategies ultimately chosen will be influenced by these understandings (Hambrick & Mason, 1984).

Earnings Management

Company managers can influence the reported earnings of the company by selecting accounting policies through a process known as earnings management (Scott, 2015). Accounting principles can be used by managers to demonstrate that profit

targets that are indicative of the company's prospects are being met (Chung et al., 2005). To hide investors' perception of the company's success, managers have the ability to alter and manipulate profit numbers (Healy & Wahlen, 1999). In this situation, the management of the company can manage earnings by controlling the amount of income and expenses that the company can recognize through the accrual accounting approach (Haykal, 2018).

According to Scott (2015), several things can motivate managers to manage earnings, including bonus plans, debt agreements, tax motivation, CEO changes, and initial public offering (IPO). Company management will increase reported earnings to provide greater bonuses based on net income (Dechow et al., 1995).

Employee Diff and Earnings Management

Employee difference is the state in which there is a discrepancy between revenue growth and employee growth (Oktaviyanti et al., 2017). Employees are one of the non-financial factors associated with increasing company profits (Oktaviyanti et al., 2017). Generally, when employees have many employees, production results will increase. Increased production results can increase company profits. On the other side, the increase in the number of employees also increases the costs that the company must incur for labor costs, which can reduce the company's profit level. The gap between revenue growth and employee growth can encourage company managers to manage earnings.

Referring to positive accounting theory, managers will choose accounting policies that are expected to be profitable for the company. The background of the policy selection taken by these managers is of course based on an assessment of what policies will benefit, whether it benefits the company or themselves. This is also in line with agency theory which states that due to the conflict of interest between managers and owners, managers can make decisions that aim to benefit themselves. In addition to the conflict of interest between managers and owners, manager characteristics also determine manager behavior in decision making. Upper echelon theory states that the characteristics of managers are determined by their background. So that decision making taken by managers can be based on various things. In this theory there are two things that underlie interconnected decision making in decisions made by managers. First, executive action based on personal interpretation. Second, the experience, values, and personality of the executive will determine the interpretation.

Based on study conducted by Bukit & Nasution (2015), it is stated that employee diff have a positive influence on earnings management. In their research, Purnamawati & Hatane (2022) also state that employee diff significantly affects earnings management. The above arguments support the hypothesis of this study as follows:

H1: Employee Diff Has a Positive Effect on Earnings Management

Board Gender Diversity and Earnings Management

Gender is a concept that explains that when viewed from a non-biological perspective, men and women have differences in cultural, social, and behavioural aspects. The discussion of gender here focuses more on the role of women at the top levels of corporate management. Existing accounting literature shows that the quality of financial statements depends on managerial motives and incentives and opportunistic behavior of executives in the company (Fatimah, 2019). This is in line with upper echelon theory which states that the level of organizational performance and strategic decisions can be predicted based on the characteristics of executives. Management characteristics that arise due to gender differences also make a difference in decision making and the resulting output. Gender differences can affect behaviour that impacts the process of decision-making (Na & Hong, 2017). The way that men and women view the identical circumstance differs, and women tend to analyze and handle problems first (Putri & NR, 2019). Setyaningrum et al.(2019) state that women are more cautious, risk-averse, and have higher expectations than men. Companies with high gender diversity tend to produce higher earnings quality regarding conservatism, persistence, and loss aversion tendencies (Na & Hong, 2017).

As stated by Setyaningrum et al. (2019), women negatively impacts on earnings management. The implication is that having women on the board will help prevent and reduce the motivation for earnings management. Similar to Budhyarto & Hasnawati's (2023) research, they found that gender diversity negatively impacts on earnings management. Thus, the following are the hypotheses of this study:

H2: Board Gender Diversity Has a Negative Effect on Earnings Management

METHODS

Population, Sample, and Sampling Techniques

The 225 manufacturing enterprises make up the population of this study. Purposive sampling is the method employed, and it meets the following requirements: 1) Manufacturing firms listed between 2020 and 2022 on the Indonesia Stock Exchange 2) Manufacturing companies that conducted Initial Public Offering (IPO) before 2020 3) Manufacturing companies that have never been suspended in 2020-2022 4) Manufacturing companies that always publish annual reports in 2020-2022 5) Manufacturing companies that are profitable in 2020-2022 6) Manufacturing companies that have a female commissioners or directors in 2020-2022. This requirement resulted in a sample of 43 companies, with 129 data processed.

Variable Measurement

The discretionary accrual (DAC) proxy from the modified Jones model (1991) is used in this study to quantify the dependent variable, earnings management (Dechow et al., 1995). This model was chosen because it has an excellent ability to detect earnings management. The Modified Jones Model consists of four stages, which are as follows:

1. Utilizing the cash flow approach, determine the total accrual value

$$TAC_t = Nit - CFO_t$$

2. Determine the total accrual regression's coefficient value.

$$\frac{TAC_t}{TA_{t-1}} = \alpha_1 \frac{1}{TA_{t-1}} + \alpha_2 \frac{\Delta REV_t}{TA_{t-1}} + \alpha_3 \frac{PPE_t}{TA_{t-1}} + \varepsilon$$

3. Calculating Nondiscretionary Accruals (NDA)

$$NDA_t = \alpha_1 \frac{1}{TA_{t-1}} + \alpha_2 \frac{(\Delta REV_t - \Delta REC_t)}{TA_{t-1}} + \alpha_3 \frac{PPE_t}{TA_{t-1}}$$

4. Calculating Discretionary Accruals (DAC)

$$DAC_t = \frac{TAC_t}{TA_{t-1}} - NDA_t$$

Description:

TAC_t : company's total accruals during the given time

Nit : the company's net profit after taxes for the given period

CFO_t : cash flow from the company's operations during time t

TA_{t-1} : company's total assets at the end of period t-1

ΔREV : change in company revenue between periods t-1 and t

PPE_t : company's fixed assets during the given time

NDA_t : The company's nondiscretionary accruals during the given time

ΔREC_t: change in the company's accounts receivable between periods t-1 and t

DAC_t : The company's discretionary accruals during the given time

α₁, α₂, α₃: regression coefficient

ε : error coefficient

The study's independent variables are employee diff and board gender diversity. The absolute magnitude of the difference between revenue and employee growth is used to calculate employee diff (Brazel et al., 2009). Meanwhile, board gender diversity is gauged by the proportion of female board members overall (Rao & Tilt, 2016).

Employee Diff = |Revenue Growth – Employee Growth|

$$GenderDiversity = \frac{FemaleBoardMembers}{TotalBoardMembers}$$

Model Specification

Below is a regression model to evaluate how employee diff and board gender diversity affects earnings management:

$$EM = \beta_0 + \beta_1 EDiff - \beta_2 GDiv + \varepsilon$$

Where:

EM	: Earnings Management
β_0	: Constant
β_1 to β_2	: Regression Coefficient
EDiff	: Employee Diff
GDiv	: Board Gender Diversity
ε	: Error

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive analysis describes the general condition of the data studied, such as the N value, which shows the amount of data studied; the mean value, which is the average value of the entire data; and the standard deviation, which shows the distribution of the data used in the research. Table 1 shows the findings of this study's descriptive statistical tests.

[\[Table 1 about Here\]](#)

It may be inferred from Table 1 above that the number of observations in this study amounted to 129 observations. The outcomes of the descriptive analysis that was conducted are as follows:

Employee Diff's minimal value of 0.00 is displayed at PT Betonjaya Manunggal Tbk. in 2021, and the maximum value of Employee Diff of 0.08 is shown at PT Argha Karya Prima Industry Tbk. in 2021. The mean value of Employee Diff is 0.2091, which means that the average employee diff variable is relatively small by looking at the proximity of the average value and the minimum value. Meanwhile, the data variance is relatively small by looking at the proximity of the average value and standard deviation.

The minimum value of Board Gender Diversity of 0.10 is shown in PT Astra International Tbk. in 2022 with a female board ratio to the total board of 2: 20. The maximum value of Board Gender Diversity of 0.75 is shown in PT Nippon Indosari Corpindo Tbk in 2021 with a female board ratio to the total board of 3: 4. The mean value of Board Gender Diversity is 0.32, which means that the average gender diversity variable is relatively small by looking at the proximity of the mean and minimum values. At the same time, the data variance is relatively small by looking at the proximity of the average value and standard deviation.

The minimum Earnings Management value of -0.35 is shown at PT Pyridam Farma Tbk. in 2021, and the maximum Earnings Management value of 0.41 is shown at PT Champion Pacific Indonesia Tbk. in 2022.

Classical Assumption Test

The classical assumption test is essential before hypothesis testing. It is helpful to ensure that the regression model does

not have classical assumption problems.

[\[Table 2 about Here\]](#)

The first stage of this classic assumption test is the data normality test, which is intended to test the distribution of data that the data is normally distributed. One way to test normality is with Kolmogorov-Smirnov, where if the Sig or significant value or probability > 0.05, it is normally distributed. In testing the normality of the data in this study, a significance value of 0.008 was obtained so that the data was not declared normally distributed. So, Extreme data is excluded using SPSS menu descriptive analysis. This process removed 14 extreme samples and reduced the data set (N) to 115 data sets. The data were then retested and classified as normal with a significance value of 0.2.

[\[Table 3 about Here\]](#)

Multicollinearity tests determine whether there is correlation between the regression model and the independent variables. An effective regression model should be uncorrelated with the independent variable. Multicollinearity in regression models can be achieved by assessing the amount of VIF and tolerance value. The regression model is declared to have no multicollinearity when the VIF value is less than 10 and the tolerance value is greater than 0.1. Vice versa, the regression model is declared to have multicollinearity when the VIF value is greater than 10 and the tolerance value is less than 0.1. The results of the multicollinearity test in this research are that the tolerance value on the employee diff variable and the gender diversity variable is 0.99. The tolerance value of the two variables has met the tolerance limit, which is > 0.10. Furthermore, the VIF value on the employee diff variable and the gender diversity variable is 1.01. The VIF value of the two variables has also met the VIF value, which is < 10. Based on these results, the data in this research do not exhibit multicollinearity.

[\[Table 4 about Here\]](#)

In a linear regression model, the heteroscedasticity test determines if the residuals of each observation have an unequal variance. The validity of the regression model is established if this assumption is valid. The Glejser test was used in this study's heteroskedasticity analysis. The findings indicate that all of the variables' significance values are higher than 0.05, meaning there are no signs of heteroscedasticity in the employed data.

[\[Table 5 about Here\]](#)

In the linear regression model, the autocorrelation test is used to determine if confounding errors in period t and confounding errors in period t-1 are correlated. The Durbin-Watson (DW) and dU values are compared to perform the autocorrelation test. When the Durbin Watson value falls within $dU < DW < 4 - dU$, autocorrelation is absent from the research data. The results of the autocorrelation test in this study initially were that there was no positive autocorrelation with a rejected decision. This is because the Durbin Watson

(DW) value is smaller than the Durbin Watson table value (dU) at a significant level $\alpha = 5\%$. Then the data is corrected using Cochran-cortt. After the repair, it shows that the Durbin Watson (DW) value is 1.905. The computations' outcomes indicate that there is neither positive nor negative autocorrelation with the choice not to be rejected in this investigation, indicating the absence of autocorrelation symptoms.

After classical assumption testing, the linear regression model does not have the problems of the classical assumptions and can be continued for hypothesis testing.

[\[Table 6 about Here\]](#)

Employee Diff and Earnings Management

Based on Table 6 above, employee diff has a significance value of 0.035 ($0.035 < 0.05$), so it can be concluded that the first hypothesis (H1) is accepted. The study's findings suggest that employee diff improves earnings management strategies. The findings of this investigation are supported by the findings of [Purnamawati & Hatane \(2022\)](#) and [Bukit & Nasution \(2015\)](#), who found that employee diff improves earnings management.

The results of this study are useful for investors and stakeholders in paying attention to employee diff as a factor affecting earnings management. The effect of employee diff on earnings management indicates a gap between revenue growth and employee growth which may indicate that the company is not providing actual financial information. Company managers use this as an opportunity to carry out earnings management. The greater the difference between revenue growth and employee growth can encourage managers to practice earnings management. So that investors and stakeholders must pay attention to this in order to avoid wrong decision making.

The results of this study are in line with the research of [Nazalia & Triyanto \(2018\)](#), [Purnamawati & Hatane \(2022\)](#), and [Bukit & Nasution \(2015\)](#) which state that employee diff affects earnings management. In contrast to the research of [Maryati et al. \(2023\)](#) and [Susanti & Kevin \(2021\)](#) who found that employee diff has no effect on earnings management.

Board Gender Diversity and Earnings Management

The second hypothesis (H2) is rejected based on Table 6 because the independent variable board gender diversity has a significant value of 0.672 ($0.672 > 0.05$). Considering that there are fewer women than men on the boards of manufacturing companies, gender diversity on boards may have insignificant effects on profit management.. The results of this investigation support those of [Suciani & Purnama \(2019\)](#) who found no connection between earnings management and a female CEO or CFO. Similarly, research by [Fatimah \(2019\)](#) found that board gender does not affect earnings management.

The lack of effect of board gender diversity on earnings

management practices indicates no difference between women and men in the ranks of board members. Both men and women in the ranks of board members have the same opportunity to carry out earnings management. The presence of women in the ranks of board members has no effect in reducing earnings management practices in the company. So this is a signal to investors and stakeholders that board gender diversity is not the main factor that causes earnings management practices. To prove that the financial statements published by the company are free from earnings manipulation, investors can look at other factors that have a major influence on earnings management practices.

The results of this study support the research of [Razak & Helmy \(2020\)](#) which shows that the female board of directors, female board of commissioners have no effect on earnings management. In contrast to the research of [Gull et al. \(2018\)](#), [Orazalin \(2019\)](#), [Ghaleb et al. \(2021\)](#), [Gavious et al. \(2012\)](#), [Alves \(2023\)](#), and [Kusumaningrum & Achmad \(2022\)](#) who found that board gender diversity affects earnings management.

The lack of samples of companies that have female boards of directors and commissioners is a limitation in this study. In 2019, the distribution of female manager positions in Indonesia was only 30.63% ([Badan Pusat Statistik, 2020a](#)). This shows that the proportion of female boards in Indonesian companies is still low. So this is a concern for future researchers to increase the sample of companies from other sectors.

CONCLUSION

This study's goal is to investigate how employee diff and board gender diversity affect earnings management in manufacturing companies. The study's findings suggest that employee diff positively affects earnings management. Gaps between financial and non-financial data raise suspicions that companies are not giving accurate financial statement, so managers use this opportunity as space to practice earnings management. Meanwhile, board gender diversity does not affect earnings management. This shows that women in the ranks of board members do not affect reducing earnings management practices in the company.

This study has limitations, namely the limited research sample, which only examines 43 manufacturing companies for 3 years of observation. In addition, this study's earnings management measurement is only measured by Discretionary Accruals (DA). Apart from using DA, earnings management can be measured using real earnings management. It is advisable for further research to increase the research sample and increase the observation period. It is also recommended for further research to be able to use other methods of calculating earnings management.

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LIST OF TABLES

1. Descriptive Statistics.....	193
2. Data Normality Test.....	194
3. Multicollinearity Test.....	195
4. Heteroscedasticity Test.....	196
5. Autocorrelation Test.....	197
6. Summary Of Hypothesis Testing.....	198

TABLE 1 / Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Employee Diff	129	0,00	1,08	0,2091	0,21313
Gender Diveristy	129	0,10	0,75	0,3261	0,13499
Earnings Management	129	-0,35	0,41	-0,0244	0,09953

TABLE 2 / Data Normality Test

N	115
Asymp. Sig (2-Tailed)	0,2
Conclusion	The Distribution of Data Is Normal

TABLE 3 / Multicollinearity Test

Variable	Tolerance	VIF	Conclusion
Employee Diff	0,99	1,01	There is No Multicollinerity
Gender Diveristy	0,99	1,01	There is No Multicollinerity

TABLE 4 / Heteroscedasticity Test

Variable	Sig.	Conclusion
Employee Diff	0,394	Heteroscedasticity does not exist
Gender Diveristy	0,261	Heteroscedasticity does not exist

TABLE 5 / Autocorrelation Test

Durbin-Watson (DW) Autocorrelation Test		Conclusion
$dU < DW < 4-dU$	1,730 < 1,905 < 2,269	There is No Autocorrelation

TABLE 6 / Summary Of Hypothesis Testing

Variable	Unstandarized Coefficients (B)	t	Sig	Result
(Constant)	-0,032	-1,679	0,096	
Employee Diff	0,102	2,135	0,035	Ha Accepted
Gender Diversity	-0,024	-0,425	0,672	Ha Rejected
R square	0,043			