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EXAMINING EARNINGS MANAGEMENT AND FIRM AGE: A QUANTITATIVE COMPARATIVE STUDY

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Abstract
This paper examines the association of firm age on earnings management (EM). We compared the large samples of 688 and 844 year-observation on listed firms in Indonesia stock exchange (IDX) and Singapore stock exchange (SGX), respectively. SGX is used as a benchmark of South East Asia (SEA) stock market. Despite SGX transaction has the highest rank in SEA stock exchange, yet the firm age average is newer than the IDX counterparts. Panel data regression was employed in analyzing the data. In addition, we conducted an anova pairwise t-test to examine the difference of firm age and EM depedency association in IDX and SGX. The result shows that both on IDX and SGX, firm age have a negative and significant effect towards EM. Moreover, it is found that there is a significant difference between the effect of firm age to EM in the firm listed on IDX and SGX.

INTRODUCTION

Earnings management (EM) is a noteworthy issue that still attracts attention to be discussed current days. This issue exists either because in practice firms that engage in EM will try hard to hide this activity, thus it will not be picked up by all parties, particularly investors. Firms that undergo financial distress often succeed in hiding their poor performance through EM (Taleatu et al., 2020). Thus, it takes a lot more effort to discover EM. EM is included in the act of manipulating financial statements, because the reported profit is not the actual profit for the year. Furthermore, firms that manage earnings tend to experience an increase in dividends (Espahbodi et al., 2021). Therefore, managers who are engaged in EM will receive higher bonuses from investors as a result of increased earnings (Alexander & Hengky, 2017). This activity allows stakeholders such as investors and potential investors to experience bias which results in losses in making investment-related decisions. In 2002 the Sarbanes-Oxley Act (SOX) issued a requirement for high-quality audit reports which resulted in more severe penalties for firm caught engaging in EM (Dewing & Russel, 2004). Hence, firms that engage in EM is found to be weaker in the post-SOX period than that of pre-SOX era (Ghosh et al., 2010).

The discussion comes to how to measure EM activity in a firm. Based on previous studies the EM approach consists of various ways. Broadly speaking, EM is measured using two approaches, namely real

earnings management and accrual earnings management (Liu, 2015). The accrual approach provides an advantage for managers compared to other approaches because it is difficult to detect but relatively easy to do (Mendes et al., 2012). Accrual measurement was originally introduced since DeAngelo published his research in 1988. Accrual is generally defined as the difference between reported income and cash flow. Despite all criticisms regarding the accrual approach over the past two decades, many previous studies have supported the use of accrual measures to detect firms engaged in EM (Bernard & Skinner, 1996; Dechow et al., 1995; Guay, 1996; Kothari et al., 2005; Mendes et al., 2012) Despite its importance, the international literature that discusses about the relationship between firm age and EM is disproportionally sparse (Khanh & Khuong, 2018; Susanto et al., 2019) as well as the number of domestic studies (i.e. Indonesia) (Agustia & Suryani, 2018; Isbela, 2017; Savitri, 2014). The firm age is an indicator for investors regarding investment decisions (Suryani, 2018). The firm age indicates how long a firm has been established. The long established ones are assumed to generate higher profits due to experience in business, to be able to compete and to take advantage of business opportunities in order to survive. In agency theory, Meckling (1976) explains that older firms have more experience, which will have an impact on higher reputation as well as high performance. Related to the relationship of financial goals in the life cycle of a firm, the long-term goals are explicitly to gain investors and improve performance. Comprehensive information reduces agency costs. The older firm will further reduce agency costs, it is because the shareholders participate in supervising the manager, if the management does their job properly (Amanda et al., 2021). Furthermore, financial information is useful for owners to reduce information asymmetry. Considering the older firm has more experience, the disclosure of information will be full and comprehensive (Apriliani & Dewayanto, 2018; Olusegun Wallace et al., 1994). Performance is measured by a stable profitability ratio and a reasonable level of leverage (debt) (Debnath, 2017). Thus, long-established firms have greater pressure to engage in EM because they tend to be more conservative and cautious (Bassiouny, 2016; Debnath, 2017).

However, the previous studies in Indonesia show various results. Such as researches conducted by Debnath (2017); Agustia & Suryani (2018); Khanh & Khuong (2018); Susanto et al. (2019) that show a significant relationship between firm age and EM. In contrast, Savitri (2014); Alexander & Hengky (2017); Das et al. (2018) found different results. Unfortunately, studies of EM in Singapore are still limited in number, such as research conducted by Gozali, et al., (2021) which examines the effect of firm characteristics on EM and comparative studies on EM between Singapore and Thailand conducted by Charoenwong & Jiraporn (2009). The results of Gozali, et al. (2021) show that the firm age has a significant effect on EM. This study seeks comparative result of EM between listed firms on the Indonesia Stock Exchange (IDX) and the Singapore Stock Exchange (SGX). At table 1, the average firm age at SGX is newer than the IDX counterpart. The value of the standard deviation on IDX is 21.5 and SGX is 24.4, therefore the age data of firms in SGX is more diverse than that of IDX. Thus, as a whole the firms on IDX have been around longer than firms listed on SGX. However, with this relatively new age, the Singapore capital market has succeeded in dominating daily transactions in SEA, with the highest ranking in SEA and 21st in the world (Investment.kontan.co.id, 2020).

Table 1. Average of firms age on IDX and SGX

	IDX	SGX
Samples	344	422
Firm age average	32.6	26.3

The business climate for IDX and SGX is relatively similar because they are in a close area. However, there are significant differences of business patterns at IDX and SGX. Firms in Indonesia tend to be run from generation to generation, which means that firm ownership is mainly held by the family (Arifin, 2003; Siregar & Utama, 2008). Meanwhile, the characteristics of Singaporean firms, particularly large firms, implement the Anglo-American model. This model is commonly used in advanced countries such as the US, UK, Europe and Japan (Van der Zahn & Tower, 2004). The model allows the ownership of the firm to be spread out but has limited power over the policies taken by management. However, EM measures in Singapore are reported to be more visible than those of its former, namely the US (Leuz et al., 2003). Further, we expect that the different macroeconomic basis will affect EM that appears in Indonesia and Singapore.

Therefore, the scope of this study is limited to seek the differences that appear in IDX and SGX. Moreover, we examine the association of firm age to EM. By employing the internal characteristic, namely firm age, we believe it is able to be used as an indicator for investors regarding investment-related decision. Research

that profoundly examine the effect of firm age to EM, to the best of our knowledge, is sparse in the literature. Previous studies employ EM as a control variable (Garel, et al., 2020; Fang, et al., 2021; Devos, et al., 2021), practically, firm age is one of the firm characteristics that is easier for new investors to understand compared to financial ratio (Dahlquist, 2001). Therefore, the results of this study fills the gap in the literature in the scope of firm age and EM. In practical, the result of this study is expected to increase awareness for investors and potential investors to avoid firm that is engaged in EM prior deciding the right investment. Furthermore, we compare two stock exchange from two countries, namely Indonesia and Singapore. SGX dominates in SEA with an average of firm age that is newer than firms in Indonesia. Moreover, regions and business climates of these countries are not much different. By this justification we determine these two research objects deserve for comparison to further analysis. Based on the abovementioned problem, we proposed several hypotheses, namely (1) Firm Age significantly affects EM in firm listed on IDX; (2) Firm Age significantly affects EM in firm listed on SGX and (3) There is a significant difference of the effect of firm age to EM between firm listed in IDX and SGX.

Furthermore, we constuct the study as follows. In section 2, we describe the methods and measurements used for the dependent, independent and control variables. The empirical results of the statistics are presented in section 3 which also discusses the findings and their implications. Furthermore, section 4 formulates conclusions, implications, and suggestions for further research.

METHOD

This study is a comparative study by examining EM at IDX and SGX. Secondary data were collected from database of stock exchange website which observes 344 and 422 firms listed on IDX and SGX in 2017 and 2018 hence, there are 844 and 688 firm-observation samples on IDX and SGX, respectively. This study used a two-year observation period due to in 2017 and 2018 economic conditions are stable (World Bank, 2019). Furthermore, the reason of period selection is because in 2017 SGX won the first rank in terms of the highest transactions in SEA, thus making it a benchmark for stock exchanges in other SEA countries including Indonesia. Additionaly, the was a corona virus breakout that made it as a remarkable issue in 2019. It has been declared as the pandemic since then. Considering the impact of economic condition after the declaration thus we excluded 2019 as an observation period. This argument makes this study picked up 2017 and 2018 as an observation period.

Table 2. Sample Reduction

Criteria	IDX	SGX
Firms listed at research objects in 2017 and 2018	749	512
Firms that do not publish financial reports in 2017 and 2018	(165)	(32)
Firms that do not have complete data required	(240)	(58)
Samples that meet the criteria	344	422
Total observation-year (2 years)	688	844

Purposive sampling method was employed using specified criteria: (1) firms listed in the research object during the study period, (2) publish financial statements during the study period, (3) completeness of the data required. Table 2 represents the number of samples examine in this study.

We consider several control variables in our regression model analysis. Therefore, profitability and leverage are used as control variables of the characteristics of the firm which cover firm age as independent variables. Profitability is proxied by return on assets (ROA) (Dewi & Mita, 2019; Kapoor & Goel, 2017; Nugraha & Dillak, 2018) and leverage is proxied by debt to equity ratio (DER) (Agustia & Suryani, 2018; Lazzem & Jilani, 2017; Savitri, 2014; Nugraha & Dillak, 2018).

Not all firms report the amounts of cash flow from operating activities consistently therefore Jones (2020) modified a more accurate measurement to detect EM using discretionary accruals (DA). In fact, accounting standards in some countries do not require firms to publish cash flow reports therefore EM will be more difficult to detect (Leuz et al., 2003). In this study, EM is supported to be measured by DA because both firms listed on the IDX and SGX have a clear classification on the cash flow statement to calculate the total or observed accruals. Furthermore, complete and consistent financial reports are always published on a scheduled period. The operational variables in this study are shown in Table 3.

Table 3. Measures of Variables

Variables		Measurement	Previous Studies
Dependent	EM	$DA = \frac{TAC_t}{TA_{t-1}}$ - NDA	(Mendes et al., 2012); (Jones, 2020)
Independent	Age	Age = YoR – YoE	(Debnath, 2017); (Khanh & Khuong, 2018)
Control	Profitability	ROA = net income/total asset	(Kapoor & Goel, 2017); (Nugraha & Dillak, 2018); (Dewi & Mita, 2019)
	Leverage	DER = total liability/total equity	(Savitri, 2014); (Lazzem & Jilani, 2017); (Suryani, 2018); (Nugraha & Dillak, 2018)

The two hypotheses proposed in this study were tested using panel data regression. The most appropriate panel data regression model is determined after undergoing three tests, namely chow, hausman and lagrange multiplier. These tests are conducted to choose the most appropriate regression model among the three models, namely ordinary least square (OLS), fixed effect model (FEM), and random effect model (REM). The panel data regression equation models are proposed as bellow.

$$YEMIna_{it} = \alpha_1 + \alpha_2 Age_{it} + \alpha_3 ROA_{it} + \alpha_4 DER_{it} + \varepsilon \quad \text{.....(1)}$$

Where $YEMIna_{it}$ represents EM for institution-year it on IDX, and Age_{it} stands for Firm Age for institution-year it, while ROA_{it} stands for Profitability for institution-year it, and DER_{it} represents Leverage for institution-year it.

$$YEMSg_{it} = \alpha_1 + \alpha_2 Age_{it} + \alpha_3 ROA_{it} + \alpha_4 DER_{it} + \varepsilon \quad \text{.....(2)}$$

Where $YEMSg_{it}$ stands for EM for institution-year it on SGX, and Age_{it} represents Firm Age for institution-year it, in addition ROA_{it} stands for Profitability for institution-year it, and DER_{it} represents Leverage for institution-year it.

Furthermore, to answer the third hypothesis we run the anova pairwise t-test by employing dummy where one is to represent IDX and two is to represent SGX.

RESULTS

Table 4 shows a statistical description as the average, maximum and minimum values, standard deviation and data range. In this study, descriptive statistics can also be used to compare data between the two objects.

Table 4. Descriptive Statistics

	IDX			
	EM	Age	ROA	DER
Mean	-0.668	32.56	7.51	28.48
Max	0.184	162	92.48	123.95
Min	-0.292	2	-0.95	-261.78
Std Dev	0.310	19.87	8.10	22.00
	SGX			
	EM	Age	ROA	DER
Mean	-0.892	26.29	0.74	180.77
Max	0.242	199	134.78	44896.46
Min	-0.708	1	-141.82	-2953.95
Std Dev	0.654	22.43	17.44	1591.84

The firm age variable shows the longest age is 162 years at IDX and 199 years at SGX, with the lowest age is 2 years and 1 year at IDX and SGX, respectively. The average firm age at IDX was 32 years, while SGX was 26 years, with a standard deviation of 19.87 and 22.43 on IDX and SGX, respectively. From the standard deviation value, it implies that the firm age data on SGX is more varies than IDX counterparts, therefore it can be concluded that the firm age at IDX is generally longer established than firms listed on SGX.

The ROA and DER values on IDX shows an average of 7.51 and 28.48, while at SGX the average values are 0.74 and 180.77. The distribution of ROA and DER data on IDX shows a more homogeneous than SGX, which is indicated by the value of the standard deviation of DER and ROA on IDX is lower or closer to the average value. On the other hand, the standard deviation of ROA and DER at SGX is greater than the average value therefore the data distribution is heterogeneous.

Table 5. Sample Industry

IDX		
Industry	Sample	Industry Representative
Infrastructures	27	8%
Basic Materials	42	12%
Financials	48	14%
Consumer Cyclicals	59	17%
Consumer Non-Cyclicals	46	13%
Energy	32	9%
Healthcare	8	2%
Industrials	17	5%
Properties & Real Estate	46	13%
Technology	6	2%
Transportation & Logistic	13	4%
Total	344	
SGX		
Industry	Sample	Industry Representative
Infrastructures	16	4%
Basic Materials	19	5%
Financials	20	5%
Consumer Cyclicals	51	12%
Consumer Non-Cyclicals	33	8%
Energy	21	5%
Healthcare	17	4%
Industrials	99	23%
Properties & Real Estate	86	20%
Technology	42	10%
Transportation & Logistic	18	4%
Total	422	

The distribution of sample of industries in this study is shown at Table 5. At IDX, the distribution of the industrial sector is relatively spread. The largest number of firm comes from the consumer cyclicals sector, which is 17% and the least is the technology sector as much as 2%. The dominant industrial sector in SGX is Industrial, which amount 23%, meanwhile the least industrial sector is infrastructure as much as 4%. On behalf of its composition, this sample represents all firm sectors in each stock exchange. The dominated listed firm in Indonesia is the consumer cyclicals sector, namely firms that sell non-primary goods, such as secondary and tertiary goods. The shift in the primary sector is one of the stages in economic development in developing countries. Indonesia is one of them, which in its development has experienced an increase in the secondary and tertiary sectors which contribute to the provision of employment therefore it helps to absorb domestic labor. Meanwhile Singapore, the country with an income per capita of 65,233.28 USD or 16 times greater than Indonesia, is controlled by the industrial sector which is dominated by industrial & commercial goods and services. By declaring that resources of Singapore are strong and highly competitive human resources, the economic stability of Singapore is formed thus it is able to deliver an upstream to downstream industry with well-trained and educated human resources.

Table 6. Panel Regression Result

Variable	IDX		SGX	
	Coefficient	p-value	Coefficient	p-value
Age	-0.145	*0.011	-0.069	**0.000
ROA	0.524	**0.000	0.207	0.971
DER	-0.037	0.954	-0.120	**0.000
Adj. R2		0.0219		0.0258
F-Statistic		0.0004		0.0000

*significant at 5%; **significant at 1%

The regression results are shown in Table 6. The results were obtained after performing the hausman, chow and lagrange multiplier test. On IDX data the most appropriate approach is the FEM, while SGX uses the REM. On IDX the results show that firm age has a negative and significant effect on EM at a significance level of 5%. For the control variable, ROA has a positive and significant effect on EM at the 1% level of significance. Meanwhile DER has no significant effect on EM. On SGX the results show that firm age has a negative and significant effect on EM. Furthermore, the control variable ROA shows an insignificant effect on EM, however DER shows a negative and significant effect on EM.

Both IDX and SGX results show that firm age has a significant effect on EM, therefore it can be concluded that hypothesis 1 and hypothesis 2 in this study are accepted. The results of this study are in line with several previous studies such as research conducted by Debnath (2017); Suryani (2018); Khanh & Khuong (2018); Susanto, et al. (2019). Moreover, the result of this study statistically shows that the effect of firm age to EM is negative either in IDX or SGX. It implies that if the firm age increases, the tendency to engage with EM decreases. In addition, we conducted a t-test difference to examine the different of the effect of firm age to EM on IDX and SGX.

Table 7. The t-test Difference

F	df1	df2	p-value
4,843	170	1361	,000
Source	F	p-value	Partial Eta Squared
Corrected Model	5,956	,000	,427
Intercept	147,398	,000	,098
Object	2,497	,114	,002
Firm Age	7,795	,000	,371
ROA	2,995	,000	,101
DER	1,033	,012	,026

Tests the null hypothesis that the error variance of the dependent variable is equal across groups.

According to Table 7, the p-value is 0.000 which statistically implies that there is a significant difference on EM in IDX and SGX. Partially, firm age has a significant difference on EM by stock exchange at 0.371 or 37.1 percent.

Table 8. Pairwise Comparisons

					95% Confidence Interval for Differenced	
(I) SE	(J) SE	Mean Difference (I-J)	Std. Error	p-valued	Lower Bound	Upper Bound
IDX	SGX	-2,436*,b,c	,451	,000	-3,320	-1,551
SGX	IDX	2,436*,b,c	,451	,000	1,551	3,320

Based on estimated marginal means

*. The mean difference is significant at the ,05 level.

b. An estimate of the modified population marginal mean (I).

c. An estimate of the modified population marginal mean (J).

d. Adjustment for multiple comparisons: Bonferroni.

Table 8 presents the results of the pairwise comparisons test. The p-values for the difference between IDX and SGX show values of 0.000 and 0.000, respectively. These results imply that there is a significant difference between IDX and SGX in the relationship between firm age to EM.

DISCUSSION

This study aims to determine the effect of firm age on EM, using two stock exchange samples, namely the IDX and SGX in 2017 and 2018 with a total sample of 688 and 844. The results of this study indicate that firm age has a negative and significant effect on EM both on IDX and SGX. The firm age has a significant influence on EM, according to agency theory, it shows that older firms are assumed to be able to generate higher profits than the newer counterparts (Bestivano, 2018). Firms that have been around for a longer time will be trusted by investors than the firms that have just been established. As a result, newer firms will find it difficult to obtain funds in the capital market and require them to rely on their own capital (Suryani, 2018; Zen & Herman, 2007).

Furthermore, the findings reveal that there is a significant different between IDX and SGX regarding the effect of firm age to EM. In 2014, PricewaterhouseCoopers (PwC) conducted a survey and the results show that 95 percent of corporation in Indonesia are owned by families (PwC, 2014). Most of the share ownership of listed firms on the IDX are also controlled by families, therefore the pattern of share ownership structure in Indonesia tends to be concentrated (Carney & Child, 2013; Habib et al., 2017; Mulyani et al., 2016). The firm is passed down from generation to generation to carry on the legacy of the family as well as maintain the good name and reputation of the family. By family supervision, the firm will prioritize the interests of the family over other interests. Hence, they avoid activities that will impair the good name of the family Suprianto et al. (2019). In addition, EM in family firms is more efficient than firms with varies ownership structure. Therefore, investors can rely more on the income reported by family firms than other firms (Siregar & Utama, 2008). Furthermore, long-established firms in Indonesia dominated family firms. Given the aforementioned assumption it is concluded that long-established firms less engaged in EM than the newly-established counterparts, due to the long-established ones are family firms that avoid the risk manipulation activities such as EM to maintain their firms as family legacy. This result is supported by research conducted by (Agrawal & Chatterjee, 2015) which shows that higher performing firms are involved in higher EM, while distress firms are involved in lower EM and prefer to reveal the real conditions. This condition is in correspond in Indonesia where the use of EM does not always be related to the financial condition of a firm, but to maintain things that are more crucial than the temporary financial performance (Agustia et al., 2020).

Basically the corporation in Singapore is also family firms (and will remain that way). However, in Singapore the role of the government in regulating good corporate governance is dominant. In addition, Singapore is notorious for being intolerant of corruption, including earning manipulation. Unethical actions related to corporate practices in any form are prohibited and the government will provide strict sanctions for these activities. Good corporate governance in Singapore results from the presence of strong pillars and major initiatives undertaken. All listed firms on SGX are required to provide a complete description of their corporate governance practices by referring to the guidelines set out in the Code of Corporate Governance. At SGX, firm age has a negative effect on EM. This is because long-established firms have stricter supervision from audit committees. As it is known that Singapore is one of the countries that initiated the enactment of an audit committee on a publicy corporation, therefore earnings manipulation actions such as EM will be detected more easily by an experienced audit committee. However, in a study conducted by Gopalan & Jayaraman (2011), it was found that Singaporean firms were the lowest in activities that involved earnings manipulation.

CONCLUSION

The study examines the association of firm age on EM by comparing two stock exchanges, namely IDX and SGX. SGX is used as a benchmark of SEA listed firms. Despite SGX transaction has the highest rank in SEA stock exchange yet the firm age average is newer than the IDX counterpart. The results of this study reveal that on both IDX and SGX show that firm age has a significant and negative effect toward EM. It implies that if the firm age increases, the tendency to engage with EM decreases. The long-established firms avoid EM because they prevent the risk of manipulating activities which able to affect the image of firms. The impact is belived to impart the family reputation, family legacy, and investors trust. Moreover, the results show that there is a significant difference between the effect of firm age to EM in firm listed on IDX and SGX.

In addition, This study contributes to the gap in the literature on the relationship between firm age and EM. Firm age is one of the determinants in predicting companies that engage with EM. Moreover, it is concluded that age matter as a warning for investors and potential investors in examining newly-established firms. Given the scope of this study, the limitation is this research employs a short period of time. Hence, we recommend for further study to employ the longer period of research. Furthermore, it is needed to classify the period such as the financial distress and crisis conditions to carry out the bigger result of EM on publicy corporation. As the longer period of data available we will update the results of this study.

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