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BOARD AGE DIVERSITY AND FINANCIAL REPORTING QUALITY: THE CASE OF MALAYSIAN CORPORATIONS

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ABSTRACT

This study investigates the nexus between board age diversity and financial reporting quality of Malaysian listed corporations. The study is focused on a sample of eighty (80) corporations listed on the main market of Bursa Malaysia from 2008-2017. The study extends board diversity literature in observing the relationship between board age and financial reporting quality measured by Accruals Quality and Financial Restatement. We found that board age diversity has no significant relationship with financial reporting quality as measured by accruals quality model. However, the relationship between board age diversity and financial reporting quality as measured by financial statement restatement was found to have a significant negative relationship. We recommend the appointment of fairly older director into the board of publicly quoted companies to enhance conservative earnings management and improve the quality of financial reporting.

1. INTRODUCTION

The spate of accounting scandals in the international financial community in recent times has raised many questions about the quality of corporate financial reporting. The board, as corporate governance mechanism, influences management decision making regarding various aspect of firm performance such as financial reporting quality (Firoozi, Magnan, & Fortin, 2016). However, the connection between corporate governance and information quality has been strongly debated in the context of developed countries. It is only recently that researchers have turned their attention to examine the relationship between corporate governance and financial reporting quality in emerging countries (Klai & Omri, 2011).

After the Enron saga, the US government enacted the Sarbanes-Oxley Act of 2002, which puts pressure on the board to ensure adherence to regulations and standards leading to transparency and integrity. The Act introduced requirements regarding board composition to increase the quality of the financial reporting, and provided a framework for the increased institutional and regulatory pressure for more board diversity. Despite institutional and regulatory pressures for increased diversity in the boardroom, empirical evidences so far remained inconclusive (Carter, Simkins, & Simpson, 2003; Alzoubi, 2012; Engelen, Van Den Berg, & Van Der Laan, 2012); Herko, 2014; Firoozi, et al., 2016).

Ruigrok, Peck, and Tacheva (2007) argue that rather than relying on research results from other countries, researchers need to take national circumstances into account in examining board diversity, thus call for more research works on this topic to be undertaken in different countries. More evidence should therefore be drawn from the developing countries, in a way to contribute to the limited literature on board diversity in these countries (Dutta & Bose 2006; Jamali, Safieddine, & Daouk, 2007; Palmer & Varner, 2007; Kang, Ding, & Charoenwong, 2010).

Following the introduction is section two, which focuses on literature review and hypotheses development, including conceptualizing board diversity and financial reporting quality. Sections three and four discuss the research methods and data presentation. Immediately after the section on regression results is a section on test of hypotheses and discussion of findings. The paper closes with conclusion and some recommendations as presented in section seven.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 Theoretical Concept

The importance of corporate mechanisms and its implications for the company has been widely studied in economic theory. In corporate governance research, several theoretical frameworks have been used in order to examine the relationship between board characteristics and financial reporting quality. The theories are not mutually exclusive, but have different impacts, and it is against this background that our review focused on social capital theory.

Social capital usually refers to the value of a social network. Lin (1999) defines social capital as resources embedded in a social structure which is accessed in purposive actions. Social capital is created when individuals or organisations interact, and the social actors are interconnected to other social actors in a criss-crossing pattern with varying strengths (Singh, 2007). The social capital of the directors can mean social similarities showing a shared affiliation as well as a personal network. Social capital enables a board of directors to obtain timely and adequate information and to influence other parties as well (Rose, Munch-Madsen, & Funch, 2013).

The benefits of social capital come from better information, power, and solidarity. Economic actions are informed, influenced and enabled by the network of social relations). Demographic similarities among directors will reflect the inter-organisational network (Lynall, Golden, & Hillman, 2003). If directors therefore are demographically different from each other in terms of age, it is more likely that their networks will be different from each other, which will make the firms total social capital high (Singh, 2007). In the light of the above theoretical espouse, this empirical advancement of the dynamics of board age diversity and financial reporting quality is predicated on the social capital theory.

2.2 Financial Reporting Quality

The Financial Accounting Standards Board (FASB, 2008) defines financial reporting as activities which are intended to serve 'the informational needs of external users who lack the authority to prescribe the financial information they want from an enterprise, and therefore must use the information that management communicates to them. The International Accounting Standard Board (IASB) in its conceptual framework defines quality financial reporting as that which meets the objectives and the qualitative characteristics of financial reporting (IASB, 2008; Van Beest, Braam, & Boelens, 2009). Nwonyuku (2012) observed that these definitions are concerned with financial information that is given to users by the preparers of the financial statement rather than information which is required by an individual or group of individuals who are in a position to enforce their request.

The IASB (2008) conceptual framework for financial reporting defines decision-useful information as information about the reporting entity that is relevant to existing and potential equity investors, lenders, and other stakeholders in making decisions in

their capacity as capital providers. The framework noted that a key prerequisite for achieving quality financial reporting is the adherence to the objectives and the qualitative characteristics of financial reporting information. According to the framework, qualitative characteristics are the attributes that meet the decision usefulness of financial information, and listed these attributes as; relevance, faithful representation, comparability, understandability, verifiability and timeliness. Cohen, Krishnamoorthy, and Wright (2004) however, posit that there is a lack of consensus as to what constitutes financial reporting quality. They argue that although the Sarbanes Oxley (2002) require auditors to discuss the quality of the financial reporting methods and not just their acceptability, the notion of financial reporting quality remains a vague concept.

Financial reporting is central to economic activities. It involves the provision of high-quality financial information concerning economic entities, primarily financial in nature, useful for economic decision making. Financial reporting encompasses financial statements as well as other forms of information such as annual reports filed with the Securities and Exchange Commission (SEC), news releases, and management forecasts (Nwonyuku, 2012).

Although companies may generate financial statements in accordance with generally accepted accounting principles, these statements may present differing levels of quality. The different accounting environments and regulations are some of the main causes and consequences of the variety of quality level in financial reporting. The determinants of financial reporting quality are not well understood in the current accounting literature because the meaning of quality in accounting is so many and rather different from those in many other fields (Zheng, 2010). There appears to be no universally accepted way of measuring financial reporting quality. From extant literature, researchers have measured financial reporting quality using different methods or a combination of them, such as Accruals Quality, and Financial Restatement (Choi & Pae, 2011).

2.3 Regulating Financial Reporting Quality in Malaysia

The Malaysian Financial Reporting Act 1997 was established for the purpose of improving the quality of external financial reporting in Malaysia. The Act established the Financial Reporting Foundation (FRF) as the parent organization while The Malaysian Accounting Standards Board (MASB) is the operating arm. The Act vested MASB with responsibility to set financial reporting standards and statements of principles for financial reporting in Malaysia (Suhaida, 2006). The MASB is an independent standard setting body with representation from all relevant parties in the standard setting process in Malaysia, including preparers, users, regulators, academics and the accounting profession. MASB took over the accounting standard setting responsibility from the indigenous accounting professional bodies, the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institute of Accountants (MIA). The MASB, together with the Financial Reporting Foundation (FRF), make up the frameworks for financial reporting in Malaysia (Ugbede, Lizman, Kaseri, & Lame, 2013).

Under this reporting framework, the accounting standards issued and adopted by the MASB are mandated by law and the enforcement of the standards were entrusted to the three regulatory agencies, namely the Securities Commission (SC), the Central Bank of Malaysia (Bank Negara) and the Companies Commission of Malaysia (CCM). The SC is responsible to monitor compliance with accounting standards by public listed companies, the CCM monitors compliance by all registered companies and the Central Bank is responsible to monitor compliance by financial and banking companies (Abdullah & Minhat, 2013).

As a former British colony up to the year 1957, Malaysian accounting standards have always closely followed the former International Accounting Standards (IAS) and the current IFRS. Most of the accounting standards applied in the United Kingdom had always found its way to be adopted by the Malaysian standard setters and regulators (Hanefah & Singh, 2012). However, full adoption of the International Financial Reporting Standard (IFRS) as a standard in Malaysia is set to be effective from Jan 1, 2018.

2.4 Board Age Diversity and Financial Reporting Quality

Board age refers to the average age of members of the board of directors. Board age diversity has the potential to enhance board performance, because directors of different ages will, to some extent, have different backgrounds, skills, experiences and social networks (McIntyre, Murphy, & Mitchell, 2007). Hambrick and Mason (1984) suggest that youthful managers are more inclined to undertake risky strategies, allowing firms with young managers to experience higher growth than their counterparts with older managers. This can be explained by the fact that older managers are more risk averse while younger managers tend to have higher ability to process new ideas, lower willingness to accept status quo, and less interest in career stability (Barker & Mueller 2002; Chen, Chanb, & Leung, 2010).

The degree of age diversity could also affect the outcome. Excessive diversity has been found to be negatively related to performance because of conflicts and communication breakdowns (Murphy, & McIntyre, 2007). The effects of diversity upon performance may also be depending upon context (Carter, D'Souza, Simkins, & Simpson, 2010). Complex and ambiguous tasks have been shown to benefit from increased age diversity (Wegge, Roth, Kanfer, Neubach, & Schmidt, 2008). Age diversity could affect the social capital in both positive and negative ways. By increasing age diversity a more differentiated social network and human capital might be gained. The inclusion of directors of different ages, in comparison with a homogeneous board, the total social and human capital might be increased (Dagsson & Sallberg, 2011). The study on age diversity is important because most of the time there are only people from above 60 years old on boards (Engelen, et al., 2012).

There are different conclusions on the effect of age diversity and financial reporting quality. Qi and Tian (2012) examined the influence of audit committees' personal characteristics on the firm's earnings management behavior using China's publicly traded firms during 2004-2010. Their findings shows that the age of audit committee members are associated with earnings management, indicating that older audit committees may be considering more about their career security, and may work harder to prevent firm's earnings management behavior,

A field study conducted by Wegge, et al. (2008), on work groups amongst some 4000 employees in the public sector shows that age heterogeneity improved the ability of groups to solve tasks with high complexity. However, for groups working on simple tasks, age heterogeneity increased the number of self-reported health problems - which in turn indicates that groups of diverse ages should be utilised particularly for innovation or solving complex problems. Musyoka (2015) found that age diversity significantly influence the earnings management positively among firm listed in the Nairobi Securities Exchange.

Engelen et al. (2012) found a hyperbolic relationship exists between age diversity and company performance in the Netherlands. It means that age diversity results in increasing company performance up to a certain point, beyond which there will be decline in company performance. Dagsson & Sallberg (2011) found a statistically significant positive relationship between age diversity and ROA in small firms. Mahadeo, Soobaroyen, and Hanuman (2012) on the other hand found no positive effect of age diversity on company performance. McIntyre et al., (2007) investigated the relationship between age diversity on the board of directors and firm performance, and found that a firm's performance will be lower in the case of low or high variation in the ages of directors than in the case of moderate variation and that performance will also increase with the average age of directors.

Gois (2014) examined the extent to which features such as the introduction of a non-executive director, an independent director, the academic experience and age contribute to an improvement of accounting information submitted to stakeholders by the companies. They found no evidence that age of board members is positively related to higher quality of accounting information. Sundaram and Yermack (2009) found positive relationship between age and ethical behaviour on financial reporting quality. Davidson, Xie, Xu, and Ning, (2007) found that younger managers are likely to engage in earnings management.

From the foregoing, prior research suggests that older directors are risk-averse and more ethical than the younger directors. Consequently, we argue that if directors are more ethical and conservative, they are less likely to engage in earnings management practices that lead to poor financial reporting quality. Against this backdrop, we formulate two hypotheses:
H1: There is no significant relationship between board age diversity and earnings management.
H2: There is no significant relationship between board age diversity and financial restatement.

3. RESEARCH METHOD

In studying the relationship between board age diversity and financial reporting quality, we adopted longitudinal research design. The choice of this design is because the research entails studying the population of interest over a period of 10 (ten) years (2008-2017). As with other behavioural science research, this study is an ex-post facto research since the researcher has no control over the variables regarding the ability to manipulate them. The study is a combination of cross-sectional and time series survey design. The population of this study comprises of all the companies listed on the Malaysian Bursa (823) as at 31st December, 2017. The choice of Malaysia is first premised on its developing country status, economic structure, emerging stock market status, availability of data and the researcher's interest. The sampling method adopted in this study was non-probabilistic (judgmental) sampling procedures. From the sample frame, we purposively (based on the availability of directors' profiles in the financial statements) selected 80 (eighty) non-banking corporations were randomly selected for the period. In the study, secondary data were collected from the content analysis of the financial statements of the relevant firms between 2008 and 2017.

3.1 Model Specification

From previous studies, researchers in recent times have used Accrual Quality to measure the reliability of financial statements (Ojeka, Iyoha, & Asaolu, 2015; Omoro, Aduda, & Okiro, 2015). The accruals model adopted was based on the work of Dechow and Dechev (2002), and as suggested by McNichols (2002), we also control for change in sales revenue and property, plant and equipment.

$$\frac{TA}{ASSET_{t-1}} = \beta_0 + \beta_1 \frac{CFOit-1}{ASSET_{t-1}} + \beta_2 \frac{CFOit}{ASSET_{t-1}} + \beta_3 \frac{CFOit+1}{ASSET_{t-1}} + \beta_4 \frac{\Delta REV}{ASSET_{t-1}} + \beta_5 \frac{PPE}{ASSET_{t-1}} + \varepsilon_{it}$$

Where,
TA = the firm's total accruals measured as change in non-cash current assets minus change in current liabilities minus the current portion of long-term debt minus depreciation and amortization expenses.

$ASSET_{t-1}$ = the firms' i total assets in year t-1
CFO_{ijt} = operating cash flow of firm i in year t
PPE = the gross value of property, plant and equipment of firm i in year t

To enhance the robustness and accuracy of the research result, we adopted additional measures of financial reporting quality; restatement of financial statement in line with extant empirical studies (Firoozi, et al., 2016; Cohen, Hoitash, Krishnamoorthy, Wright, 2014; Hasnan, Marzuki, & Shuhidan, 2017).

It is expected that a functional relationship exists between board age diversity and financial reporting quality. The general form of the relationship is expressed as:

$$Y_{it} = Z_{it} + W_{it} + U_{it} \quad (I)$$

Where:
i = 1, …, 1 represent the sampled companies,
t = 1, …, T represent the time period covered the study;
Z_{it} = a set of demographic diversity variables such as board average age, ethnicity,
gender and nationality of board members.
W_{it} = a set of control variables such as firm age and firm size,
μ_{it} = the error term.
Yit = the dependent variables of Accruals and Restatements respectively.

3.2 Control Variables

In this study, firm size, firm age and board age were used as control variables to control for the effects of board diversity on financial reporting quality. These factors have been known to have an impact on financial reporting quality in previous studies, hence need to be controlled in the study. Following from the preceding theoretical and empirical espousition, the general forms of the models in equations (i) is transformed into a functional form as:

$$ACCRUALS_{it} = \beta_0 + \beta_1 AGE_{it} + \beta_2 FAGE_{it} + \beta_3 FSIZE_{it} + \beta_4 BSIZE_{it} + \mu_{it} \quad \text{-- (ii)}$$

$$RESTATEMENT_{it} = \beta_0 + \beta_1 AGE_{it} + \beta_2 FAGE_{it} + \beta_3 FSIZE_{it} + \beta_4 BSIZE_{it} + \mu_{it} \quad \text{- (iii)}$$

Where:
Dependent Variables:
Accruals = Measure of dependent variable of financial reporting quality;
Restatement = Alternate measure of dependent variable of financial reporting Quality
Independent Variables:
Age = Average age of directors
FAGE = Age of the firm since incorporation
FSIZE = Size of the firm
BSIZE = Number of directors on the board
i = the number of firms of the sample size (i=1, 2, ….)
t = the period covered in the study (1, 2, …10)
β_1, β_2, … β_4 = Coefficiences of the variables
μ_{it} = Error term

1. DATA PRESENTATION AND ANALYSES

Table 1 -Descriptive Statistics

	ACCRUALS	RESTATE	BAGE	BSIZE	FAGE	FSIZE
Mean	0.015373	0.162500	55.74875	7.063750	30.08750	1102678586
Median	-0.00026	0.000000	56.00000	7.000000	27.00000	142599392.5
Maximum	26.50308	1.000000	89.00000	13.00000	103.0000	68886345000
Minimum	-4.14877	0.000000	31.00000	3.000000	3.000000	33297.00
Std. Dev.	1.078667	0.369140	6.043698	1.663022	17.96164	6383879712
Skewness	18.22751	1.829720	0.200313	0.704189	1.841034	8.677937
Kurtosis	457.2562	4.347876	4.904444	3.605599	7.229116	80.03098
Jarque-Bera	6922590.	506.9425	126.2469	78.34259	1048.101	207833.3
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	12.29835	130.0000	44599.00	5651.000	24070.00	8.82E+11
Sum Sq. Dev.	929.6547	108.8750	29184.50	2209.749	257773.9	3.26E+22
Observations	800	800	800	800	800	800

Source: Eviews 9.5 Output, 2019

As observed from Table 1, the two adopted proxies (i.e. ACCRUALS and RESTATE) of financial reporting quality (FRQ) have mean values of 0.015373 (±1.08) and 0.1625 (±0.37) respectively. This implies that, on the average, the sampled companies have income increasing accruals while about 16.3% restated their within the periods covered by the study. Their low standard deviation values indicate minimal variability in the accrual quality and level of financial restatements among the sampled firms. The joint average age of the directors is 56 years with maximum and minimum values of 89 years and 56 years respectively.

The table also shows a mean BSIZE of 7.064 implying that the average size of the board of directors in the sample is 7 members. The largest board in the sample comprises of 13 members, while 3 members was the least as shown by the maximum and minimum values respectively. Also, the average age of the sampled firms is 30 years, with the oldest firm among the sample having operated for over 100 years. The youngest firm is 3 years old in terms of year of listing on Malaysia Bursa. The average total assets stood at 1,102,678,586.0. The probability values of the JB statistic were all lower than 5% indicating significant departure from normality in the series.

Table 2 - Correlation Matrix (Model 1)

Covariance Analysis: Ordinary					
Date: 04/08/19 Time: 23:10					
Sample: 2007 2016					
Included observations: 800					
Correlation					
t-Statistic					
Probability	ACCRUALS	BAGE	BSIZE	FAGE	LOGFSIZE
ACCRUALS	1.000000				

BAGE	-0.011024	1.000000			
	-0.311440	-----			
	0.7555	-----			
BSIZE	0.040812	0.139070	1.000000		
	1.153857	3.967121	-----		
	0.2489	0.0001	-----		
FAGE	-0.000753	0.274543	-0.085872	1.000000	
	-0.021271	8.065465	-2.434769	-----	
	0.9830	0.0000	0.0151	-----	
LOGFSIZE	0.013278	0.001228	-0.014313	0.057399	1.000000
	0.375111	0.034695	-0.404375	1.624140	-----
	0.7077	0.9723	0.6860	0.1047	-----

Source: Eviews 9.5 Output, 2019

Pearson correlation result in Table 2 captures the direction and strength of the relationships amongst the variables in model 1. As shown, BAGE and FAGE have positive associations with ACCRUALS while FSIZE and BSIZE are negatively correlated with ACCRUALS. However, none of the relationships were statistically significant. The implication is that both BAGE and ACCRUALS move in opposite direction, but not strongly. There is also evidence that BSIZE and BAGE moves strongly in the same direction, same as FAGE and BAGE. This implies that higher board sizes are significantly associated with older board members. In the same vein, older firms are significantly associated with older board members. It could also be deduced that the issue of multicollinearlity is unlikely inherent among the series owing to the low correlation coefficients across boards.

Table 3 - Correlation Matrix (Model 2)

Covariance Analysis: Ordinary					
Date: 04/08/19 Time: 23:12					
Sample: 2007 2016					
Included observations: 800					
Correlation					
t-Statistic					
Probability	RESTATE	BAGE	BSIZE	FAGE	LOGFSIZE
RESTATE	1.000000				

BAGE	-0.084900	1.000000			
	-2.407014	-----			
	0.0163	-----			
BSIZE	-0.100485	0.139070	1.000000		
	-2.853031	3.967121	-----		
	0.0044	0.0001	-----		
FAGE	-0.024987	0.274543	-0.085872	1.000000	
	-0.706089	8.065465	-2.434769	-----	
	0.4803	0.0000	0.0151	-----	
LOGFSIZE	0.028803	0.001228	-0.014313	0.057399	1.000000
	0.813994	0.034695	-0.404375	1.624140	-----
	0.4159	0.9723	0.6860	0.1047	-----

Source: Eviews 9.5 Output, 2019

From Table 3, the correlation matrix of the variable in model 2 showed negative correlations between BAGE, FAGE and BSIZE with RESTATE (the second adopted proxy for FRQ). However, only BAGE and BSIZE were statistically significant with p-values of 0.016 and 0.004 respectively. On the other hand, the controlling variable of FSIZE has positive insignificant correlation with RESTATE. As in model 1, BSIZE, FAGE with BAGE are all significantly associated. The implication is that firms with older directors are significantly associated with higher restatements. There are also no signs of high correlation as the highest correlation coefficient is 0.057.

5. REGRESSION RESULTS

Owing to the two-model approach adopted by the study, as a result of the two FRQ proxies employed, two different panel regression techniques were estimated. In respect of model 1, the Hausman test was used to select the most appropriate model between the fixed and random effect models. The decision rule is to accept that the former (fixed effect) is most desirable if the p-value of the hausman test is less than 5%, other the latter with will be adopted. The outcome is presented in Table 4 below.

Table 4 - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.102734	4	0.2769

Source: Eviews 9.5 Output, 2019

Going by the above outcome, which shows a probability value of 27.69%, the random effect model is considered the most appropriate with respect to Model 1.

Table 5 - Random Effect Result (Model 1)

Dependent Variable: ACCRUALS
Method: Panel EGLS (Cross-section random effects
Date: 04/08/19 Time: 23:03
Sample: 2007 2016

Periods included: 10				
Cross-sections included: 81				
Total panel (unbalanced) observations: 800				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.164802	0.115749	-1.423787	0.1549
BAGE	-0.001201	0.003379	-0.355424	0.7224
BSIZE	0.028135	0.015809	1.779671	0.0755
FAGE	0.000604	0.001517	0.398267	0.6905
LOGFSIZE	0.001682	0.008792	0.191320	0.8483
	Effects Specification		S.D.	Rho
Cross-section random	0.251947	0.0544		
Idiosyncratic random	1.050810	0.9456		
	Weighted Statistics			
R-squared	0.001445	Mean dependent var	0.012286	
Adjusted R-squared	-0.003579	S.D. dependent var	1.049452	
S.E. of regression	1.051329	Sum squared resid	878.7069	
F-statistic	0.287626	Durbin-Watson stat	2.172888	
Prob(F-statistic)	0.886080			
	Unweighted Statistics			
R-squared	0.001935	Mean dependent var	0.015373	
Sum squared resid	927.8555	Durbin-Watson stat	2.057790	

Source: Eviews 9.5 Output, 2019

From Table 5, the adjusted r-squared showed a negative value which is an indication of negligible explanatory power of the independent variables toward the variation in the dependent variable. The overall probability (F-stat) value of 0.886 (88.6%) is considered very high and an indication of no linear relationship. Hence, we are only 21.4% confident that the slope coefficient of our regression line is non-zero. The implication is that the explanatory variables in model one, jointly, could not explain the variations in ACCRUALS. Although not a desirable result, the controlling variable of BSIZE appeared weakly significant (at 10% level of confidence), while the independent variable of BAGE did not pass the significant test at any level.

Table 6 - Binary Logit Result (Model 2)

Dependent Variable: RESTATE				
Method: ML - Binary Logit (Newton-Raphson / Marquardt steps)				
Date: 04/08/19 Time: 23:06				
Sample: 2007 2016				
Included observations: 800				
Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	0.903693	1.198721	0.753881	0.4509
BAGE	-0.032959	0.016692	-1.974610	0.0483
BSIZE	-0.159107	0.068810	-2.312248	0.0208
FAGE	-0.002935	0.005893	-0.498007	0.6185
LOGFSIZE	0.026095	0.040075	0.651157	0.5149
McFadden R-squared	0.018692	Mean dependent var	0.163474	
S.D. dependent var	0.370034	S.E. of regression	0.367551	
Akaike info criterion	0.886893	Sum squared resid	105.1030	
Schwarz criterion	0.916670	Log likelihood	-342.2184	
Hannan-Quinn criter.	0.898343	Deviance	684.4369	
Restr. deviance	697.4739	Restr. log likelihood	-348.7369	
LR statistic	13.03703	Avg. log likelihood	-0.437061	
Prob(LR statistic)	0.011096			
Obs with Dep=0	655	Total obs	783	
Obs with Dep=1	128			

Source: Eviews 9.5 Output, 2019

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Table 6 - Binary Logit Result (Model 2)

	Variables	t/z-Statistics	p-value (Sig.)	Decision	Remark/ Conclusion
Ho1	Board age diversity Vs Accrual	-0.355424	0.7224	NSig	Accept null
Ho2	Board age diversity Vs Restatement	-1.974610	0.0483**	Sig	Reject null

Source: Researchers Compilation (2018) **NSig = Not significant; *Sig* = Significant. **.Significant at 5%**

From the first hypothesis, the null hypothesis of no significant relationship between board age diversity and earnings

management was accepted. This is due to the negative coefficient value of -0.355 and a non-significant probability value of 72.24%. What this implies is that having older board of directors may pose a reducing effect on the level of accrual and implicationally, earnings management, but not significantly. On one hand, the coefficient sign is in line with our expectation because the study apriori conjectured firms with more diversified directors (in terms of age) are more associated with more experienced and reputable technocrats in different fields who are usually cautious of public scrutiny, and hence are more likely to be associated with lower accrual management. This supports the findings of Qi and Tian (2012) which found that older directors prioritise protecting their career security and reputation, and may work harder to prevent firm's earnings management behaviour.

On the other hand, the insignificant relationship negates our expectation and is also at variance with Musyoka (2015) who found that age diversity is a significantly determinant of earnings management. Although the insignificant nature of our result could be attributed to the measurement issues as there are different proxies of earnings management, it still supports Gois (2014) who found no evidence that age diversity affects FRQ. In hypothesis two, our result showed that age diversity has a significant negative relationship with financial restatement, which led to the rejection of the null hypothesis. Again, the coefficient sign tallies with our expectation because the assumption was that since age and experience are known to be positively associated, it then means that companies with older directors are less likely to experience material errors in financial statement, thereby reducing the need for financial restatement which is viewed as a negative signal and an indication of poor financial reporting quality. The implication of this result is that board age diversity is a strong determinant of financial restatement and this position is not at variance with the outcome of most previous studies such as Sundaram and Yermack (2009); Xie et al, (2007). Conclusively, the results of both models are the same in principle, but differ in terms of significance.

7. CONCLUSION AND RECOMMENDATION

The results of the current study have implications for users of financial accounting information on the impact of directors' age on financial reporting quality in the context of developing economies of Malaysia. However, the result of the study will no doubt have robust implications for government and other regulators in promoting sound corporate governance practices vis-ŕ-vis financial reporting quality. From the findings of insignificant positive relationship between age and financial reporting quality in Malaysian firms, there is need for Malaysian firms to include fairly older directors in their board.

We investigated the relationship between board age diversity and financial reporting quality of corporations listed on the Bursa Malaysia. The study could not be done on Nigerian companies because firms listed on the Nigerian Stock Exchange hardly disclose the ages of the directors. All efforts to get the age variable even in the directors' profile with the Corporate Affairs commission were not successful because we realized that instead of the actual age, directors only indicate "adult". In addition, since choice of measurement of financial reporting quality could skew an expected result, future researchers should incorporate different proxies of earnings management in a sector-based analysis in order to obtain a more robust result.

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