The Effect of Board Diversity on Real Earnings Management: Empirical Evidence From Jordan

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Abstract

This study considers the effect of foreign board members and age diversity on real earnings management (REM), by controlling the firm size, leverage and growth. This study employed quantitative methodology and longitudinal data for non-financial business firms, quoted on the Amman Stock Exchange from 2011 to 2015. Data were analysed using descriptive statistics and Panel Corrected Standard Errors (PCSE) regression. This study found that foreign boards member, age diversity, leverage and growth had negative and significant associations with REM. Based on the results, a firm should appoint young members to the board in addition to older members to pave the way to cross-ideology that can deter REM activities. At least one foreign director should exist within the board of directors because a foreign board member has different qualifications and experiences that may help to deter REM practices.

Keywords: age diversity, foreign board member, real earnings management

1. Introduction

Board of directors plays their significant role to increase the business performance, through the development of strategic objectives and working for the mission and vision statements (Fama & Jensen, 1983; Johnson, Schnatterly, & Hill, 2013; Chouaibi, Harres, & Brahim, 2016). Elected by a company's shareholders, the board of directors are responsible for the financial and strategic decisions in the business firms (Alam, Chen, Ciccotello, & Ryan, 2014). In this regard, Shawtari, Mohammed, Abdul Rashid, and Ayedh (2017) explained that the composition of the board is an important mechanism to guarantee board effectiveness. The important strategic role of BOD is to work for the financial reporting and delivering accounting information to its users for which earnings management cannot be overlooked.

In the overall structure of corporate governance, diversity in the board is the core issue. Generally, diversity has been studied through various categories such as the age, the nationality, the education, and the gender of board members (Hambrick & Mason, 1984; Johnson et al., 2013; Post & Byron, 2015). Diversity has been found to enhance both the innovation and the creativity of the boardroom (Miller & Del Carmen Triana, 2009; Galia & Zenou, 2012). It also works to serve as per the wishes of their customers and employees (Brammer, Grosvold, & Rayton, 2007). Each of these board diversity categories affects firm-level results through cognition and the recognition of social identity (Kagzi & Guha, 2018). Notably, the concept of board diversity considers the significant phenomenon from the context of literature (Hisham Farag & Mallin, 2016; Rao & Tilt, 2016). This idea has put significant attention to the discussion of board diversity in front of various scholars (Hillman, 2015; Mahadeo, Soobaroyen, & Hanuman, 2012).

During the past decades, scholars have empirically examined the role of the demographic attributes of the board of director, and they have argued that such attributes are related to organizational results (Chapple & Humphrey, 2014; Farag & Mallin, 2017; Chang, 2017). Most related research considers the link between board attributes and quality of earnings from the perspective of accrual-based earning management (AEM) or financial statement restatements (Kyaw, Olugbode, & Petracci, 2015; Hoang, Abeysekera, & Ma, 2017). However, how board diversity affects activities of earnings management are rarely studied. Hence, investigating how diversity in boardroom influences real earnings management is essential. The current study, therefore, fills this gap by investigating how board diversity effect on earnings management of the business firm from the REM perspective.

In the Jordanian context, several empirical studies, reports, and official statements have indicated that the listed companies, specifically non-financial firms, have been obviously practicing earnings management activities. These practices have been attributed to the drawbacks of the corporate governance in force and also to the insufficiency of accounting legislation. Many empirical studies have confirmed the presence of the phenomenon of earnings management in Jordanian companies, for example, Alhajaya and Aldebaee (2011), Al-Mustafa (2012), Almomani, (2016), and Alhadab (2018). These researchers have concluded that those firms which are listed in Amman Stock Exchange (ASE) are still practising earnings management activities, even post implementation of the mandatory IFRS. In addition, Al-ghazzawi and Alsoboa (2016) indicated that up to 50% of Jordanian companies practised earnings management from 2005 to 2013. Other studies in Jordan have indicated that the earnings management issue has caused the collapse of many Jordanian companies (Al-Sartawi, Hamdan, & Abu Ijela, 2013; Alomari, 2015; Cossiga, 2018).

Enomoto, Kimura, and Yamaguchi (2015) conducted a study for both real and accrual-based earnings management practices for 39 countries. Figure 1 shows the score of real earnings management practices for many countries, which shows that Jordan is one of the most active countries in practicing real earnings management or REM.

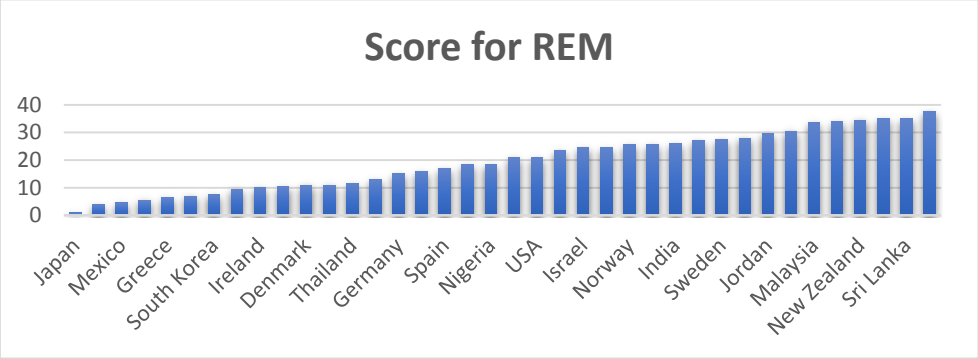

Figure 1. REM scores for 39 countuies

Source: Enomoto, Kimura, and Yamaguch (2015)

The present study contributes to literature through diversity in the board and related research in several ways. At first, it covers the gap in the literature while exploring the relationship between board diversity and REM. The reason is that earlier studies have focused on the board diversity and firm performance merely (Carter, Simkins, Souza, & Simpson, 2007; Miller & Del Carmen Triana, 2009; Shehata, Salhin, & El-Helaly, 2017), firm value (Carter, Simkins, & Simpson, 2003), social responsibility (Ibrahim & Hanefah, 2016; Min,2018), earnings quality (Dagustani,et.al 2016;Hoang et al., 2017) and accrual-based earnings management (Hooghiemstra & Hermes, 2016; Du, Jian, & Lai, 2017). However, studies on the relationship between age diversity and foreign board and REM are rarely studied.

The second contribution can be reviewed from the context of response to call Du et al. (2017) who recommended reinvestigating the relationship between foreign members serving on the board and other patterns of earnings manipulation except (accrual-based). They suggest that future studies consider this relationship in another context (except China) taking into consideration the differences in cultural factors among different countries, formal institutions, and marketization. Further, this study comes responds to calls from recent studies to take into consideration the age diversity of the board and its effects on performance, earnings quality and earnings management (Bae & Skaggs, 2017; Xu, Zhang, & Chen, 2017). Therefore, this study highlights the diversity of the board of directors that play a significant role in mitigating earnings management practices, i.e. the effect of board diversity on real earnings management.

The rest of the paper is organized as follows. Next section provides a comprehensive review of the literature. Section three explains the hypotheses of the study. Section four provides an overview of the method being used. Section five illustrates the results of the current study and its explanations. The last section provides the conclusions of the study.

2. Literature Review

2.1 Real Earnings Management

For some personal purposes, business managers can mislead the users of financial information through AEM and REM because of some financial benefits (Roychowdhury, 2006; Cohen, Mashruwala, & Zach, 2010; Wongsunwai, 2013). Besides, it is also noticed that business managers are more likely towards the usage of REM, comparatively to AEM. However, usage of REM is found to be highly costly. In addition, with the approval of Sarbanes-Oxley Act Of 2002 (SOX) in USA, managers tend to engage themselves in REM comparatively to the false AEM, because REM gets a low level of scrutiny from the regulators and auditors (Cohen, Dey, & Lys, 2008; Francis, Hasan, & Li, 2016).

Ewert and Wagenhofer (2005) defined REM as a changing in the timing or restructuring of transactions related to financial events. REM may, therefore, mean that the manager deviates from an otherwise ideal scheme of actions merely to influence earnings resulting in the imposition of actual costs to the company. Moreover, Cohen and Zarowin (2010) defined REM as the managerial procedures that deviate from normal transaction activities. However, the best definition of REM is presented by Roychowdhury (2006) who calls it as such "management actions that deviate from normal business practices, undertaken with the primary objective of meeting certain earnings" (p. 336). In addition, Roychowdhury (2006) also documents that REM may also mean the violation of normal operational activities, aim to misguide stakeholders and seek the approval of certain financial reporting objectives. Depending on this definition certain techniques can be used to manipulate earnings by real activities, for instance, discretionary expenditures reductions and announcing a major percentage of discounts on sales optimally under certain economic circumstances.

By practising REM activities, managers realize that they must sacrifice future cash flows to fulfil short-lived benchmarks. However, because REM involves managerial decisions related to operational strategies and investments, REM becomes more difficult to detect and avoid its impacts on cash flows (Kothari, Mizik, & Roychowdhury, 2012; Chidoko and Mashavira, 2014; Salvioni and Gennari, 2014; Razek, 2014; Eshiet, 2017; Mejdoub and Arab, 2017; Oitsile., Galebotswe and Sekwati, 2018; Chang'ach, 2018). Previous research indicates that non-fraudulent AEM is less harmful to current stockholders than REM because it does not weaken a company's cash flows (Roychowdhury, 2006; Cohen & Zarowin, 2010; Kothari et al., 2012; Ali, et.al. 2016; Omodero and Ogbonnaya, 2018).

2.2 Board Nationality Diversity

Board nationality diversity defined as the existence of at least one holding member foreign-nationality within the board of director (Staples, 2007). Various governance instructions focus on the hiring of individuals from various nationalities in board of director for their stakeholders, employees and customers. This is due the hiring of foreign directors is seen to enhance the decision process and its quality for the board (Ibrahim & Hanefah, 2016). In addition, Ruigrok, Peck, and Tacheva (2007) suggest that foreign directors bring with them diverse ideas and viewpoints, such as religion, language, culture life, experiences, norms and behaviour of the company or state, which, in turn, improve the decision-making operation. The assumption may be made that foreign board membership is a primary element of a corporate governance framework that defines the value of companies and the distribution of resources amongst different stakeholders (Oxelheim & Randoy, 2003; Romli and Ismail, 2014; Ekpung, 2014; Sarwar and Mubarik, 2014 ; Okon and Monday, 2017; Kimengsi and Gwan, 2017; Bollazzi and Risalvato, 2018).

Foreign directors can impact firm value through their monitoring and advise actions. In this regard, Miletkov, Poulsen, and Wintoki, (2017) indicate that foreign directors represent a unique type of director, and their diverse experiences and backgrounds can extend their companies' strategic alternatives. They found a direct association between foreign directors and performance of the firm, especially in those states having poor financial institutions and when that director belongs to a country with more robust legal institutions than a company's home country. The assumption under agency issue suggests that a variety of expertise on the board of director enhances performance as the board will be more effective in practising its monitoring role. As a result, foreign directors contribute to the diversity of boards (Mori & Towo, 2017). In this regard, Estélyi and Nisar (2016) suggest that a great possibility exists that companies with a variety of nationalities serving on their boards will have a higher chance of achieving value.

2.3 Board Age Diversity

Age variety on the board is a significant attribute of the board of director as explained by (Ferrero-Ferrero, Fernández-Izquierdo, & Muñoz-Torres, 2015; Ibrahim & Hanefah, 2016). The age class of directors is considered to be a significant indicator of board diversity (Kang, Cheng, & Gray, 2007), and board age may be defined as the total ages of all boardroom members serving on the board (Anderson, Mansi, & Reeb, 2004). Existing psychology and

accounting literature point out a positive association between ethical behaviour and age. In this context, Mudrack (1989) indicates that age is an efficient indicator of ethical behaviour. The author argues that because older people have constant, long exposure to culture, customs and traditions, they are more ethical. Moreover, Carter et al. (2003) suggest that board age diversity and gender composition influence the effectiveness of the monitoring of a firm's and consequently positively impact the financial performance of the corporate. Besides, age diversity mitigates the probability of emotional and harmful conflicts, while convergence in age oftentimes leads to job comparisons which may lead to competition among boardroom members (Pelled, Eisenhardt, & Xin, 1999). This, in turn, perhaps impacts board functioning and corporate performance.

3. Hypotheses Development

3.1 Board Nationality Diversity and Real Earnings Management

The presence of a foreign director is often used as a proxy for board nationality diversity. In this regard, there are mixed findings regarding the association between the presence of a foreign member and earnings management. For example, Hooghiemstra, Hermes, Oxelheim, and Randøy (2016) provide evidence indicating that the existence of non-Nordic foreign directors instead of foreigners per se was linked to greater levels of earnings management. Similarly, Firoozi, Magnan, Fortin, and Nicholls (2016) provided evidence that the proportion of foreign members serving on the audit committee has a negative link with the quality of financial reporting.

Based on the notion of agency cost, the key obligation of board members is to resolve the conflict between management and stakeholder, as they are highly responsible for the internal control of the business (Fama & Jensen, 1983), as the board can either appoint or dismiss managers and has the power to set executive compensations. Consequently, the argument has been made that board diversity also improves the monitoring role of directors for many reasons. First, diversity of board can enhance the quality of boardroom decision-making and, therefore, restrain misstatement financial reports early on (Makhija & Stewart, 2002; Du et al., 2017). Second, board diversity enhances the independence of the boardroom and thus provides efficient control and monitoring of a firm's actions. Previous research has found that earnings management and board independence are negatively associated with each other (Klein, 2002; Bowen, Rajgopal, & Venkatachalam, 2008).

Based on the above discussion, the prediction can be made that the foreign members serving on a board enhance board independence and improve decision-making ability. Consequently, based on the earlier findings and agency theory, the nationality diversity of the board plays an essential part in monitoring management and reducing earnings management. Accordingly, the following hypothesis is posited:

H_1: There is a negative relationship between foreign board members and real earnings management.

3.2 Board Age Diversity and Real Earnings Management

The previous empirical research rarely examined the association between earnings management and board age diversity. But it is possible to infer the significance of the relationship through studies conducted on the relationship between corporate performance and the diversity of the board. In this regard, several studies have an inverse linkage between corporate performance and diversity in the age of directors (Ali, Ng, & Kulik, 2014; Shehata et al., 2017). Li, Chu, Lam, and Liao (2011) found a positive relationship between board diversity and performance. Furthermore, Ercan (2017) found an insignificant relationship between the age diversity of board members and firm performance. Some authors have concluded that the age of board member has no effect on the financial restatement. However, by using Chinese corporate data from 2010 to 2013, Xu et al. (2017) found that board age was negatively associated with the firm financial fraud. Additionally, authors like Huang, Rose-Green, and Lee (2012) and Davidson, Xie, Xu and Ning (2007) indicate a significantly negative association between earnings management and age of board members. Finally, Hoang et al. (2017) concluded that boards diversity including age diversity was not associated with earnings quality.

From a theoretical view, the relationship between board diversity and earnings management can be interpreted by the agency theory, which assumes that board diversity rises board independence (Carter et al., 2003; Carter et al., 2007). And this, in turn, leads to enhancing the strength of boardroom monitoring (Hong et al., 2017). Further, from Shleifer and Vishny (1997) indicated that CEO's maybe require independent oversight. In this case, board diversity and the subsequent conflict that is deemed to happen with a diverse set dynamic probably usually has a positive influence on the supervising function and could be one of the mechanisms used to reduce potential agency problems (Erhardt et al., 2003; Rismayadi & Maemunah 2018).

More independence of the board lead to better monitoring and controlling of management's actions, which leads to the mitigation of the opportunistic behaviour of managers, and, thus, curbs earnings management practices. Indeed,

Bae and Skaggs (2017) investigated further of such relationships. The current study contributes to the literature by exploring the following hypothesis:

H_2: There is a negative relationship between board age diversity and real earnings management.

3.3 Control Variables

Several control variables based on the literature were included to isolate the effects of this study's test variables on REM. In this regard, the current study also considered the effect of three control variables, namely, firm size, growth and leverage.

Most research conducted on earnings management has used firm size as a control variable. The size of a firm is a good indicator to determine whether a firm must engage in earnings management activities. Watts and Zimmerman, (1978) have emphasised the fall in systematic risk in a large firm and have asserted that as government interference costs (political costs) increase, the large firms grab the attention of all internal and external related parties. Many prior studies utilize firm size as a control variable (Kim & Sohn, 2013; Francis, Hasan, & Li, 2016b).

Defond and Jiambalvo (1994) indicate the fact that the presence of debt explains the level of leverage in the business over time. Hence, Jeliek (2007) and Zamri et al. (2013) asserted that increased leverage is related to a lowering in earnings management practices. Following several studies, the current study also uses leverage as a control variable (Sweeney, 1994; Burgstahler, Hail & Leuz, 2006; Jiang, Zhu & Huang, 2013).

The growth of the company and its value choice equals the current value of all its actual choices to create future investments (Myers, 1977). Roychowdhury (2006) pointed out that REM systematically differs with growth chances various studies have indicated the fact the negative growth trends can be avoided through the proper level of earnings management in the business.

4. Methodology

4.1 Population and Sampling

The current study used data from all non-financial companies in Jordan which are listed on the Amman Stock Exchange (ASE) during the period of the current study from 2011 to 2015. The number of all non-financial companies at the end of 2015 was 113 companies, which included 64 industrial sector companies and 49 services sector companies. Note that the companies which were delisted from ASE during the study period were excluded; also, the companies that were newly listed on ASE during the study period were excluded. Thus, the final number of the sample was 101 companies (505 observations), including 57 industrial sector companies and 44 service sector companies.

4.2 Data Collection

The secondary data is collected from the annual reports of selected firms. The annual reports were downloaded from the website of Amman Stock Exchange and from the private websites of firms, over the period of 2011 to 2015. The main reason behind the selection of this period for this study was to take into consideration the new Jordanian corporate governance code that has been issued, effective since 2010. This study used correlated panels corrected standard errors method to estimate the regression, where estimation after pooled ordinary least square (OLS) failed to meet the required standard (Beck & Katz, 1995).

4.3 Model Specification and Multiple Regressions

As per the view of Roychowdhury (2006), the concept of earnings management can be explained as a "management actions that deviate from normal real business practices, undertaken with the primary objective of meeting certain earnings" (p. 336). The regression model used to test the relationship between the independent variables (i.e., board age diversity and board nationality diversity) and real earnings management is as follows:

$$REM = \beta_0 + \beta_1 FORBOD + \beta_2 BODAGDIV + \beta_3 FSIZE + \beta_4 GROWTH + \beta_5 LEVAGE + e.$$

Where REM =real earnings management, FORBOD = foreign board (Non-Jordanian). BODAGDIV = board age diversity, FSIZE= Firm size, LEVAGE = leverage, GROWTH = growth opportunities, e = error term

Panel corrected standard error (PCSE) method were adopted to remedy any disturbances resulting from heteroskedasticity and serial correlation, thereby generating unbiased and consistent estimates of parameters. Indeed, Beck and Katz (1995) recommend that, although PCSE gives more accurate estimates than feasible generalized least squares FGLS, either FGLS or PCSE is more efficient than OLS to estimate complicated panel error structures.

4.4 Variable Measurements

The previous studies on management of earnings, as per the model of Dechow, Kothari, and Watts (1998) and modified by Roychowdhury (2006), thereby, later studies have modified models based on Roychowdhury (2006) to measure real earnings management. Notably, authors like Roychowdhury (2006) have more focus on the concept of earnings management in the field of corporate finance and related literature.

This current study uses the Cohen et al. (2008) model, which has three proxies for real earnings management, and they are: 1) abnormal discretionary expenditures, 2) abnormal cost of production and 3) abnormal cash flow of cash from operations.

Every proxy is captured by using an independent cross-sectional regression as follows.

$$DISX_t / TA_{t-1} = a_{0+} (1/ TA_{t-1}) + a_1(SALES_{t-1} / TA_{t-1}) + \varepsilon_t \quad (1)$$

$$PROD_t / TA_{t-1} = a_{0+} (1/ TA_{t-1}) + a_1(SALES_t / TA_{t-1}) + a_2 (\Delta SALES_t / TA_{t-1}) + a_3(\Delta SALES_{t-1} / TA_{t-1}) + \varepsilon_t \quad (2)$$

$$CFO_t / TA_{t-1} = a_{0+} (1/ TA_{t-1}) + a_1(SALES_t / TA_{t-1}) + a_2 (\Delta SALES_t / TA_{t-1}) + \varepsilon_t \quad (3)$$

Note that all these equations are to calculate normal PROD, CFO and DISEXP, Where: CFO_t*:* current cash flow from operation, PROD*t:* the cost of production, and DISEXP: discretionary expenses. S*t*: the sales in year t. Δ*SALES* $_t$*:* (*SALES* $_t$ - *SALES t-1)* change in current sales from t-1 to t. *SALES t-1*: sales in year t-1. Δ*SALES* $_{t-1}$: change in sales, TA_{t-1}: is the total asset by the end of the year as expressed through t-1.

Abnormal levels of production cost (REM_{PRODt}) as measured as the residuals of equation (2) while the beyond the normal level of expenditures in the business (REM_{DIXEPt}) and operating cash flows for the business (REM_{CFOt}) are measured under the title of equations (1) and (3) multiplied by −1. REMt is the sum of REM_{PRODt} , REM_{DIXEPt} and $REM_{CFOt.}$

$$REM= CFO*(-1) + DISEXP*(-1) + PROD \quad (4)$$

The measurement of independent and control predictors is shown in the table below.

Table 1. Measurement of the key variables of the study

Variables	Operationalization
Independent Variables	
Foreign board member (FORBOD)	Dummy variable equals to 1 if there is at least one foreign director on the board of directors and 0 if otherwise (Choi, Park, & Yoo, 2007; Estélyi & Nisar, 2016; Du et al., 2017).
Board Age Diversity (BODAGDIV)	The coefficient of variation by considering the standard deviation of the age of board members with their mean value (Pelled et al., 1999; Ali et al., 2014; Li & Wahid, 2018).
Control variables	
Firm size (FSIZE)	The natural logarithm of total assets (Kang & Kim, 2012; Sakaki, Jackson, & Jory, 2017).
Firm Growth (GROWTH)	Market to book value of equity ratio (Wild, 1996; Franz, HassabElnaby, & Lobo, 2014).
Leverage (LEVAGE)	Total debt divided by total assets (Osma, 2008; Anagnostopoulou & Tsekrekos, 2017).

5. Empirical Results

5.1 Descriptive Statistics

Table 2 presents descriptive statistics of the study variable. Table 2 shows the mean values of REM, foreign board, board age diversity, firm size, growth and leverage are 0.0000, 0.423, 10.495, 7.365, 1.358 and 0.348, respectively. These findings indicate that most of the firms, in Jordan have appointed foreign members on the board. Meanwhile, average firm size is measured through natural logarithm of overall assets has a mean score of 7.365 with the deviation from the mean score of 0.65.

Table 2. Descriptive findings of the study

Variable Names	Mean	S.D	Minimum	Maximum	Skewness	Kurtosis
REM	-1.58e-09	0.2236677	-1.190461	0.7601655	-.9950294	5.857979
FORBOD	0.4237624	0.4946436	0	1	.3085584	1.095208
BODAGDIV	10.49597	4.061588	0.3954199	22.62742	.0288369	2.541723
FSIZE	7.365834	0.6512111	5.671957	9.087522	.2494386	3.718070
GROWTH	1.358303	1.045077	0.1683436	5.295275	1.751801	6.127226
LEVAGE	0.3487971	24.03941	-54.0908	1.796333	1.095621	5.805933

5.2 Correlation Analysis

The pairwise correlation test was performed and presented in Table 3. Such test indicates the level of association between variables through the correlation matrix, which explains the problem of multicollinearity (high correlation) between them. As per the findings of Gujarati (1995), the problem of higher interdependency between variables exists if the value is greater than .80. In Table 3, it is observed that there is no issue of high correlation between the variables is below .80 and highest association is 0.03156 between firm size and factor of leverage.

Table 3. Correlation matrix results

Variable	REM	FORBOD	BODAGDIV	FSIZE	GROWTH	LEVAGE
REM	1					
FORBOD	0.0224	1				
BODAGDIV	-0.0858	-0.1033	1			
FSIZE	-0.0263	0.1523	0.0336	1		
GROWTH	-0.3102	-0.0670	-0.0182	0.0634	1	
LEVAGE	*0.1163*	*0.0213*	*-0.1270*	*0.3156*	*0.1258*	*1*

5.3 Multicollinearity Test

The multicollinearity test was done to ensure that no multicollinearity problematicexist, this study considers the value of VIF to check either there is a problem of correlation or not. Table 4 show the result of multicollinearity test, the mean VIF is less than 5 demonstrating that there is no problem of multicollinearity between variables.

Table 4. Multicollinearity test

Variable	**VIF**	**1/VIF**
FORBOD	1.04	0.957484
BODAGDIV	1.04	0.964714
FSIZE	1.15	0.869935
GROWTH	1.02	0.977852
LEVAGE	1.15	0.869603
Mean VIF	**1.08**	

5.4 Normality Test

In order to consider the normality of the data set, kurtosis and skewness values have been examined. As per the findings of Leys, Ley, Klein, Bernard, and Licata, (2013), the normality of the variables can be reviewed if the value of skewness statistics is in the internal of 3.0 either positive or negative. Table 2 explains that no variable is found to deviate from the normal data point as skewness values are in the range. Meanwhile, kurtosis values are also in the range which indicates a normal data set (Kline, 2011).

5.5 Regression Results

Multiple regression technique is applied while considering the variables under the title of firm age, foreign board members, leverage and growth of the business to examine the developed hypotheses. Findings are presented in Table 5, and overall variation in the dependent variable is found to be 24.66 percent in REM as explained through adjusted R-square. This indicates that remaining variation is due to some other factors which are not added in the model.

Table 5. Regression results (n=505)

Variable	Coef.	t-value	Prob. Value
FORBOD	-0.0474408	-1.980	**0.047
BODAGDIV	-0.0056985	-4.40	***0.000
FSIZE	-.01616710	-0.89	0.371
GROWTH	-.06847750	-7.91	***0.000
LEVAGE	0.2154585	7.29	***0.000
R^2	0.2466		
Prob > chi2	0.000		

Note: ***, **, * indicates level of significance at 1%, 5%, 10% percent.

6. Discussion and Conclusion

The objective of the study is to explore the link among key factors of board diversity (foreign board and age), and REM of the Jordan listed non-financial companies during 2011-2015. The findings under regression analysis are displayed in Table 5. Foreign board (FORBOD) has its significant and negative influence on REM (t = -1.980, p<0.05). This result is in favour of the first hypothesis that inverse relationship exists between foreign board and REM. This negative sign indicates that the REM of a specific company decreases when the board of directors includes foreign members. The presented findings are symmetrical to the Du et al., (2017). Likewise, Miletkov et al. (2017) have found a significant but positive relationship between firm performance and foreign directors, especially in nations with low-quality statutory institutions, and when such a director hails from a state with greater quality statutory institutions than the company's host country (Ahmed, Majid & Zin, 2016; Ali & Haseeb, 2019; Haseeb, Abidin, Hye, & Hartani, 2018; Haseeb., 2019; Suryanto, Haseeb, & Hartani, 2018).

Regarding age diversity of the board (BODAGDIV), the result indicated that director age factor has significant but negative influence on REM (t= -4.40, p<0.01). Thus, the second hypothesis (H_2) was supported, which predicted a negative relationship between the age diversity of the board and REM. This result shows that the increase of age diversity in the boardroom, lead to an increase in the monitoring role of the board, thereby decreasing the practice of REM. This finding is symmetrical to Mahadeo et al. (2012) who found that factor of diversity in the age has positively influenced short-lived performance. Similarly, Li et al. (2011) found a direct association between the financial performance of the organization and diversity in the age of directors.

With respect to control variables, the findings showed that firm size (FSIZE) had a negative but insignificant effect on REM (-0.89). This result is consistent with Llukani, (2013) Elghuweel, Ntim, Opong, and Avison, (2016), and Alexander (2017).

Regarding growth, the findings illustrated that growth has a negative and significant effect on REM (t = -7.91. p > 0.05). In this regard Nagar (2002) asserts that firms avoid negative growth trends as their rewards usually rely on achieving specific performance thresholds. This can be demonstrated with the fact that companies may be less like to

utilize real economic procedures to manage earnings because these procedures harm a corporate's competitive edge in the long-term and discourage its growth possibilities. This result is in line with Gunny (2010), whose study found that companies with high growth average were less inclined to engage in real earnings management activities. Additionally, leverage had a positive and significate effect on REM ($t_{=}$ 7.29 $p < 0.01$). This result aligned with Vakilifard and Mortazavi (2016) and Anagnostopoulou and Tsekrekos (2017), who found that the relationship between leverage and real earnings management was significant and positive. In sum, although real earnings management is detrimental to a firm's long-term growth, real earnings management remains a widespread behaviour among managers seeking to meet short-term earnings thresholds.

The findings of this current study should be of great interest to regulators and shareholders. The findings indicate that the age diversity in the boardroom can deter costly REM, whilst the existence of foreign members who are present in the board has their significant relationship with REM. However, this research is limited to the region of Jordan with a little size of the sample. Future research should test the arguments and conclusions of this study in different contexts as knowledge of the interactions of the effects of different board compositions remains limited. Better research along with improved literature is much needed for the effects of various metrics about diversity in the board on earnings management, especially in emerging markets.

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