President Director Age, MBA Degree, and Earnings Management

Siska Rohaliza, Poppy Nurmayanti M*, & Emrinaldi Nur DP

The Faculty of Economics and Business, Universitas Riau, Pekanbaru, Indonesia

* poppy.nurmayanti@lecturer.unri.ac.id

Article Info	Abstract
	This study aimed to examine the effect of president director's characteristics (i.e., age and MBA degree) on earnings management. This study used accrual earnings management with abnormal accruals as a proxy and real activity earnings management with abnormal discretionary expense as a proxy for earnings management. The population is all manufacturing companies listed on the Indonesia Stock Exchange between 2016 and 2019. The sample was selected based on the purposive sampling method, so that the companies sampled were 91 companies with a total of 364 observations. The data analysis method used is multiple regression analysis. These results find that age has a negatively significant effect on abnormal accruals and has not significant effect on abnormal discretionary expense. An MBA degree as a proxy for education has a positively significant effect on earnings management. Our results are consistent with the predictions of the upper echelons theory and have implications for various stakeholders, as well as providing insight for regulators in determining the qualifications or requirements to become president director.

INTRODUCTION

Earnings are often used as an indicator in assessing how well the company's operational performance is by evaluating the amount of profit earned. Earnings information is a major concern for interested parties to assess the success or failure of management in achieving established operational objectives. Earnings are considered as important information for investors in making investment decisions. However, investors often ignore the company's process of generating earnings, thus providing opportunities for managers to carry out earnings management (Majid et al., 2020).

According to Kurniawansyah (2018) earnings management is due to the asymmetry of information between managers and external users of accounting information so that it provides an opportunity for managers to use their policies (discretion) for their own benefit. According to (Healy and Wahlen, 1999), earnings management occurs when managers use their judgments in financial reporting and structuring company transactions in such a way that they misrepresent the economic performance of the company or to influence the results of contracts due to accounting numbers reported in the financial statements, thereby misleading some stakeholders.

There are two earnings management techniques, which are accrual-based earnings management and real activity earnings management (Na and Hong 2017). Accrual–based earnings management occurs when management makes a series of selection of accounting methods to manipulate earnings on financial statements (Lovata et al., 2016). Meanwhile, Roychowdhury (2006) defines the real activities earnings management as a deviation from normal operational practices, which is motivated by the desire of managers to mislead stakeholders into believing that certain financial reporting objectives have been met in normal operations.

Several cases of earnings management occur in Indonesia. For example, PT Tiga Pilar Sejahtera Food Tbk (AISA) or TPS Food released the financial reports for 2017, 2018, and the first semester of 2019. The 2017 financial statements were the result of a restatement that was

allegedly manipulated by the company's old management led by president director. TPS Food reported that this company recorded a net loss of Rp. 5.23 trillion, this amount is greater than Rp. 4.68 trillion from the financial statements before the restatement which only lost Rp. 551.9 billion (Fajrian, 2020).

The case above explains that there is a role for the president director in manipulate financial statements, namely earnings management. According to Isidro and Gonçalves (2011), the president director is an important actor that determines the quality of financial reporting. The president director has power likely to affect the level of earnings management. This is in line with the upper echelons theory predict that managerial characteristics have an influence on accounting choices. Particularly, Hambrick and Mason (1984), Hambrick (2007), Herman and Smith (2015) describe that the president director's experiences, values, and personality have a major influence on their ability to analyze and try to understand the situation at hand and influence their choices. The president director as a leader in the corporate who has a duty, important role and responsibility regulate and make several decisions on the company's financial and operational activities (Kwalomine, 2018).

Several previous studies have been conducted by examining the relationship between earnings management and president director characteristics such as gender, age and tenure (Ali and Zhang, 2015; Lovata et al., 2016; Na and Hong, 2017). This study extends Qi et al. (2018) study who conducted research on the characteristics of the top management team (TMT), namely age, gender, financial work experience, and education in Chinese companies listed on the A-share market from 2000 to 2015. This study focuses on president director's characteristics, which are age and education.

This study is important for the following reasons. First, research on the impact of the characteristics of the president director on earnings management has not been widely explored, especially in Indonesia. There are several previous studies examining the relationship of earnings management with president director characteristics such as gender and tenure (Novilia and Nugroho, 2016; Vernando and Rakhman, 2018). This study focuses on the characteristics of the president director, which are age and education on earnings management.

Second, previous studies on the effect of president director characteristics on earnings management were mostly conducted in countries that adopted a one-tier governance system, while Indonesia adopted a two-tier governance system. The different governance systems will affect financial reporting practices in each country. Finally, this study focuses on the characteristics of the president director, namely tenure, age, gender, and education from manufacturing companies listed on the Indonesia Stock Exchange (BEI) 2016-2019.

The rest of the paper is organized as follows. Section 2 reviews the related literature and develops our hypotheses. Section 3 discusses the methodology. Section 4 presents the results of discussion. Section 5 concludes the paper and suggestions.

LITERATURE REVIEW

Theoretical Basis

Upper Echelons Theory

Upper echelons theory put forward by Hambrick and Mason (1984) states that the strategies chosen by leaders are a reflection or a reflection of their cognitive values. This theory also shows that age, experience, education, social background, economic conditions, and the characteristics of the group in which they are located are filters when they digest, analyze and try to understand the anatomy of the problem. This determines their ability to interpret complex situations and in what ways these situations should be managed (Herman and Smith, 2015).

Age

Age can be one of the factors that affect the performance of a president director, especially in making decisions. Herrmann and Datta (2006) explain that older managers tend to be more conservative and risk-averse than younger presidents. However, Davidson et al. (2007) found that older presidents of directors will undertake accrual earnings management as they approach retirement age. This study is in line with the research of Isidro and Gonçalves (2011) who found

that older president directors are more likely to undertake accrual earnings management to achieve higher short-term performance, as an effort to increase compensation as they approach retirement age. Based on the research of Hambrick and Mason (1984), it shows that younger managers will tend to carry out risky strategies compared to older managers.

Education

According to Cheng et al. (2010) president directors who have high education can produce superior performance for their company. President directors will be better able to distinguish between the various alternatives that will be used when solving problems in the company and making better decisions because of their greater cognitive ability to analyze information (Herrmann and Datta, 2006;Nadkarni and Herrmann, 2010). This study uses a proxy with MBA degrees to measure the education of the president director.

Hypothesis Development

Age and Earnings Management

Upper echelons theory explains that older executives usually prefer financial security in their future and career, so they are more likely to avoid risk. Meanwhile, younger managers tend to adopt risky strategies and experience increased growth compared to older managers. Based on previous research conducted by Herrmann and Datta (2006), it is clear that older managers tend to be more conservative and risk-averse than younger presidents. While Davidson et al. (2007) found that older presidents will perform earnings management as they approach retirement age.

This study is supported by research by Isidro and Gonçalves (2011) which states that older president directors are more likely to manipulate income to achieve higher short-term performance, as an effort to increase compensation as they approach retirement age. Researchers argue that the president director with increasing age will be more ethical and conservative, so that the president director tends to do less aggressive earnings management and produce good financial reports. In other words, the president director will report lower earnings management, so that the impact on the quality of financial reporting is better if it is led by an older president than a younger president.

Based on the explanation above, the second hypothesis is formulated as follows.
H1: Older president directors have an effect on earnings management.

Education and Earnings Management

The theory upper echelons states that a person's formal educational background may produce rich and complex information. The higher the education of the president director, the more complex his knowledge, skills, and experience will be, so that he will be better at carrying out his job compared to people who have low education (Herman and Smith, 2015).

President directors with higher education in management or finance are usually seen as the leaders who are best equipped to run a business and make it grow (Isidro and Gonçalves, 2011). The president director's education in this study is measured by the president director who has an MBA. The analytical techniques learned and acquired by the president director when undergoing the MBA program are directed to avoid losses or mistakes, thus encouraging the president to report more aggressive earnings (Nurmayanti M, 2020).

Based on research conducted by Isidro and Gonçalves (2011), it shows that the president director with a background in management or finance studies is more prone to income smoothing, especially a president director with a background in financial knowledge will have more ability to manipulate accounting information. Meanwhile, research conducted by Fatimah (2019) shows that education has no effect on earnings management.

Researchers argue that a president director with a measurably higher education with an MBA will engage in aggressive earnings management. A high level of education will make the CEO more confident and understand more about the gaps that can be used in conducting earnings management.

Based on the explanation above, the hypothesis proposed for the education variable is as follows.
H2: The president directors with an MBA have an effect on earnings management

METHODS

Sample Criteria

This study uses all manufacturing companies listed on the Indonesian Stock Exchange (IDX) from 2016 to 2019 as sample. The initial sample size is 145 firms. After eliminating manufacturing companies with missing financial data or with insufficient information about president director's profiles and outlier, we obtained a total sample 91 firms or 364 firms-years observations. We collected financial data and president directors manually (hand-collected) from annual report and financial statements in www.idx.co.id.

Research Design

We used a cross-sectional model of accruals proposed by McNichols (2002) and Francis, Lafond, Olsson, and Gounopoulos and Pham (2018) to estimate abnormal accruals. This model combines the Jones (1991) and Dechow and Dichew (2002) models.

$$\frac{TCA_{i,t}}{TA_{i,t-1}} = \beta_0 \frac{1}{TA_{i,t-1}} + \beta_1 \frac{CFO_{i,t-1}}{TA_{i,t-1}} + \beta_2 \frac{CFO_{i,t}}{TA_{i,t-1}} + \beta_3 \frac{CFO_{i,t+1}}{TA_{i,t-1}} + \beta_4 \frac{\Delta SALES_{i,t}}{TA_{i,t-1}} + \beta_5 \frac{PPE_{i,t}}{TA_{i,t-1}} + \varepsilon_{i,t} \quad (1)$$

$$TCA_{i,t} = \left(\Delta CA_{i,t} - \Delta Cash_{i,t}\right) - \left(\Delta CL_{i,t} - \Delta STD_{i,t}\right) \qquad (2)$$

$$CFO_{i,t} = NIBE_{i,t} - (TCA_{i,t} - DEPN_{i,t}) \qquad (3)$$

$TCA_{i, t}$ is total current working capital accruals of firm i in year t. $CFO_{i, t}$ is cash flow from operations of firm i in year t. $PPE_{i, t}$ is the gross property, plant, and equipment (PPE) of firm i in year t. $NIBE_{i, t}$ is net income before extraordinary items of firm i in year t. $DEPN_{i, t}$ is depreciation and amortization expense of firm i in year t. $TA_{i, t-1}$ is total assets of firm i in year t. $\Delta SALES_{i, t}$ is change in sales of firm i in year t. $\Delta CA_{i, t}$ is change in current assets of firm i in year t. $\Delta Cash_t$ is change in cash of firm i in year t. ΔCL_{t-1} is changes in current liabilities of firm i in year t. $\Delta STD_{i, t}$ is change in short term-debt of firm i in year t.

To estimate abnormal discretionary expense, we used the following cross-sectional model (Roychowdhury 2006; Ali and Zhang 2015).

$$\frac{DISEXP_{i,t}}{TA_{i,t-1}} = \beta_0 \frac{1}{TA_{i,t-1}} + \beta_1 \frac{SALES_{i,t}}{TA_{i,t-1}} + \varepsilon_{i,t} \qquad (2)$$

$DISEXP_{i, t}$ is discretionary expense of firm i in year t, defines as sum of selling, general, and administration expense, research and development expense, and advertising expense. If data for selling, general, and administrative expense is avalaible, and data for research and development and adverstising expense are missing, these two expenses are set to zero. $TA_{i, t-1}$ is total assets of firm i in year t-1. $SALES_{i, t}$ is total sales of firm i in t.

Regression Model

To test the hypothesis, we developed a model to test the effect of the president director's characteristics on earnings management with the following regression model.

$$ABAC_1 = \alpha + \beta 1AGE_1 + \beta 2MBA_2 + \beta 3FIRMSIZE_3 + \beta 4ROA_4 + \beta 5LEV_5 + \beta 6LOSS_6 + \varepsilon \quad (3)$$

$$ADE_2 = \alpha + \beta 1AGE_1 + \beta 2MBA_2 + \beta 3FIRMSIZE_3 + \beta 4ROA_4 + \beta 5LEV_5 + \beta 6LOSS_6 + \varepsilon \quad (4)$$

The variables are defined as follow:

$ABAC_1$ = size of abnormal accruals, which is estimated in the previous equation.

ADE_2 = the size of the abnormal discretionary expense, which is estimated in the previous equation.

Age_3 = age of president director, variable dummy, 1 if age of president director ≥ median age, 0 otherwise.

MBA_4 = president director with MBA degree, variable dummy, 1 if president director has MBA, 0 otherwise.

$Firmsize_3$ = firm size, as measured by the natural logarithm of assets.

ROA_4 = return on assets, which is measured by net income after tax divided by total assets.

LEV_5 = leverage, as measured by total debt divided by total assets.

$LOSS_6$ = negative profit, variable dummy, 1 if the company experiences a loss or net profit in a year it is negative, 0 if vice versa.

Company size is a scale that can be used to classify large or small companies as measured by total assets, log size, sales, and market capitalization. This study used total assets to measure company size. This variable usedthe measurement used by Sakdiyah et al. (2020). Profitability is the company's ability to use its assets to generate profits. This study used Return On Assets as a proxy to calculate profitability. This variable used the measurement used by Hasty and Herawaty (2017). Leverage is a measurement used by a company to value assets financed with debt in order to carry out its operational activities. This variable used the measurement used by Sakdiyah et al. (2020). A negative profit or loss is a measurement of the financial condition of the problematic company Peni and Vähämaa (2010). This variable is determined by variables dummy.

RESULTS

Descriptive Statistic

Based on the sample selection criteria, there were 91 companies with 4 (four) years of observation so that 364 observation companies obtained. However, when data processing occurs outlier data. Outlier is a data or case with unique characteristics that look very different from other observations and appear in the form of extreme values (Ghozali, 2018:40). Outlier data also results in data not being normally distributed so that data is excluded from the test model. After the data is outlier released, there are 85 observation companies for accrual earnings management and 81 observation companies for real activity earnings management.

Table 1 presents descriptive statistics for 83 firms with 4 (four) years of observation. These report that 332 observation companies showed results from abnormal accrual manufacturing companies include a minimum value of -0.3550, namely the Lion Metal Works Tbk company and a maximum value of 8.0901, namely Asia Pacific Fibers Tbk. The mean value for abnormal accruals was 1.1663 and the standard deviation was 0.9089. Descriptive statistical analysis shows that 17.77% of the president's directors have an MBA. These indicates that there is still a low number of president directors with MBA degrees. The president director of an Indonesian manufacturing company has the oldest age of 80 years and the youngest is 32 years old. In general, the president director's average age is 56 years. The oldest president directors are Sabana Prawidjaja from Ultra Jaya Milk Industry Tbk and Susanto from the company Jembo Cable Company Tbk. The youngest president director is Marissa Jeanne Maren from Eratex Djaya Tbk.

Table 1. Descriptive Statistic for Abnormal Accruals

Panel A. President Director Characteristics (Variable Dummy)

	N	Value 1		Value 0	
MBA	332	59	17.77%	273	82.23%
AGE	332	172	51.81%	160	48.19%

Panel B. Continuous Variable

	N	Mean	Median	Max	Min	Stdev
AGE (year)	332	56.4006	56	80	32	9.476
LOSS	332	0.1867	0	1	0	0.3903
FIRMSIZE (billion rupiah)	332	1.5670	1.7564	4.4698	1.6572	4.7249
ROA	332	0.0652	0.0424	1.6744	-0.3918	0.1585
LEV	332	0.5344	0.4518	5.0733	0.0012	0.5800
Earnings Management Proxy						
ABAC	332	1.1663	1.0502	8.0901	-0.3550	0.9089

Definitions and measurement of variables have been presented in the previous explanation

The firm characteristics are proxied by the control variable showing that the average results of companies that have a negative profit are 0.1867. The average firm size as proxied by total assets is 1.5670 with a minimum value of 1.6573, namely the company Lotte Chemical Tbk and a maximum value of 4.4699 namely the company Indomobil Sukses Internasional Tbk. Mean ROA is 0.0652 with a minimum value of -0.3918, namely the Panasia Indo Resources Tbk company and a maximum value of 1.6744, namely the Ultra Jaya Milk Industry Tbk company. The average leverage is 0.5344 with a minimum value of 0.0012, namely the Champion Pacific Indonesia Tbk company and a maximum value of 5.0733, namely the Asia Pacific Fibers Tbk company.

Table 2 reports descriptive statistics for 81 companies with 4 (four) years of observation so that 324 observation companies are obtained which show results abnormal discretionary expenses manufacturing companies including a minimum value of 0.0003, namely the Jakarta Kyoei Steel Work Tbk company and the maximum value of 2.5463. namely the company Unilever Indonesia Tbk. The mean value for abnormal discretionary expense is 1.0224 and the standard deviation is 0.5220. Descriptive statistical analysis also shows that 16.98% of the president's directors have an MBA. The president director of an Indonesian manufacturing company has the oldest age of 80 years and the youngest is 32 years old. In general, the president director's average age is 56 years. The oldest president directors are Sabana Prawidjaja from Ultra Jaya Milk Industry Tbk and Susanto from the company Jembo Cable Company Tbk. The youngest president director is Marissa Jeanne Maren from Eratex Djaya Tbk.

Table 2. Descriptive Statistic for Abnormal Discretionary Expense

Panel A. President Director Characteristics (Variable Dummy)

	N	Value 1		Value 0	
MBA	324	55	16.98%	269	83.02%
AGE	324	174	53.70%	150	46.30%

Panel B. Continuous Variable

	N	Mean	Median	Max	Min	Stdev
UMUR (year)	324	56.821	56	80	32	9.5567
LOSS	324	0.2253	0	1	0	1.4184
FIRMSIZE (billion rupiah)	324	1.4608	1.5593	4.4698	2.6186	1.1622
ROA	324	0.0594	0.0357	1.6744	-0.3918	0.1585
LEV	324	0.5276	0.4695	3.7445	0.0012	0.4432
Earnings Management Proxy						
ADE	324	1.0224	0.9991	2.5463	0.0003	0.5220

Definitions and measurement of variables have been presented in the previous explanation

The results of the descriptive statistics for the control variable show the mean loss of 0.2253. The average company size is 1,4608 with a minimum value of 2,6186, namely Astra International Tbk company and a maximum value of 44,699, namely the company Indomobil Sukses Internasional Tbk. Average ROA is 0.0594 with a minimum value of -0.3918, namely the Panasia Indo Resources Tbk company and a maximum value of 1.6744, namely the Ultra Jaya Milk Industry Tbk company. The average leverage is 0.5276 with a minimum value of 0.0012, namely the Champion Pacific Indonesia Tbk company and a maximum value of 3.7445, namely the company Jakarta Kyoei Steel Work Tbk.

Multiple Regression Analysis Results

Table 3 and 4 report the results of the multiple regression analysis for abnormal accruals and abnormal discretionary expense, respectively. The coefficient of determination for abnormal accruals shows that the Adj R square is 60.0%. Thus, it can be concluded that age, MBA title, leverage, profitability, company size, and negative losses are able to predict abnormal accruals of 60.0%. Meanwhile, 40.0% is explained by other variables which are not used in this study. Furthermore, the results of the F statistical test show the f-statistic value of 83.890 with a significance level of 1%. The F_{value} greater than 4 (four) and the probability smaller than 0.05 indicates that the regression model can be used to predict abnormal accruals or it can be said that age, MBA degree, leverage, profitability, company size, and negative profits jointly affect abnormal accruals.

Table 3. The Effect of Age and MBA President Director-Abnormal Accruals

Variable	Prediction Signs	Coefficients (B)	T	sig	Conclusion
(Constant)	?	1.156	7.641	0.000***	
MBA	+	0.187	2.237	0.026**	Significant
AGE	-	-0.154	-2.395	0.017**	Significant
LOSS	-	-0.237	-2.624	0.009***	Significant
FIRMSIZE	?	-0.024	-4.012	0.000***	Significant
ROA	?	0.042	0.191	0.849	Not Significant
LEV	?	1.193	21.097	0.000***	Significant
Adj R square				0.600	

F-statistic		83.890***
Number of Observations		332

***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively.
The definitions and measurements of the variables are presented in Chapter III of the operational definitions of the variables.

Table 5. The Effect of Age and MBA President Director -Abnormal Discretionary Expense

Variable	Prediction Signs	Coefficients	T	sig	Conclusion
(Constant)	?	0.818	6.275	0.000***	
MBA	+	0.262	3.601	0.000***	Significant
AGE	-	0.037	0.672	0.502	Not Significant
LOSS	-	-0.239	-3.242	0.001***	Significant
FIRMSIZE	?	0.010	1.811	0.071	Not Significant
ROA	?	0.711	3.857	0.000***	Significant
LEV	?	-0.118	-1.845	0.066	Not Significant
Adj R square					0.156
F-statistic					10.961***
Number of Observations					324

***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively.
The definitions and measurements of the variables are presented in Chapter III of the operational definitions of the variables.

The determination coefficient for abnormal discretionary expense shows that the Adj R square is 15.6%. Thus, it can be concluded that age, MBA degree, leverage, profitability, company size, and negative losses are able to predict abnormal discretionary expense of 15.6%. Meanwhile, 84.4% was explained by other variables which were not used in this study. Furthermore, the results of the f statistical test show the f-statistic value of 10.961 with a significance level of 1%. The F_{value} that is greater than 4 (four) and the probability that is smaller than 0.05 indicates that the regression model can be used to predict abnormal discretionary expense, or it can be said that age, MBA title, leverage, profitability, company size, and profit negative together affect abnormal discretionary expense.

DISCUSSION

This study examines the influence of age and MBA degree of president director on earnings management. Based on findings of the research, it can be seen that the age of the president director has an effect on earnings management. The president director with older age will be more ethical and conservative, so he tends to report low earnings management. This will affect the quality of financial reporting which will be better. Meanwhile, there was no effect of age on earnings management, which was proxied by abnormal discretionary expense.

These results support the upper echelons theory which suggests that the older president directors tend to be risk averse. The finding is consistent to Qi et al. (2018). Furthermore, the finding indicates that older executives are more conservative and risk-averse so they tend to report low accrual earnings management. This study also finds that the president director with an MBA has an effect on earnings management. A president director with an MBA degree will

carry out aggressive earnings management. This is driven by the background education, so that the president director will be more confident and give his best performance.

Overall, these results support the upper echelons theory which predicts that a president director with a formal professional education (especially an MBA degree). These findings indicate that the president director with MBA degree will be more courageous and confident, because the analytical techniques he learns in the MBA program are primarily directed at avoiding major losses or mistakes. These findings are in line with research conducted by Miller and Xu (2019) and Nurmayanti M (2020) which find that the president of the director with an MBA will report low quality earnings or report high earnings management.

In general, for control variable show variable *Loss* (negative profit) have a significant effect with a negative coefficient of -0.237 for abnormal accruals and -0.239 for abnormal discretionary expense. These results support the research of Ali and Zhang (2015) and Vernando and Rakhman (2018). This proves that to prevent losses, companies can use earnings management Zhou and Elder (2004).

Firmsize shows that has a significant effect with a negative coefficient of -0.024 on earnings management with as proxy abnormal accruals. The results of this study are in line with the results of research conducted by Arifin and Dectriana (2016), Vernando and Rakhman (2018) and Sakdiyah et al. (2020). This shows that the bigger the company is likely to reduce earnings management practices. This is because there is a good company internal control system and has a competent and quality audit committee Bassiouny (2016).

Firmsize shows that has no effect on earnings management with proxy abnormal discretionary expense. This finding supports Handayani and Rachadi (2009) that indicate that firm size is not a benchmark for earning management (Arifin and Dectriana, 2016).

The result of ROA (profitability) has no significant effect on earnings management with as proxy abnormal accruals. Increasing profitability shows that the company performance is getting better and the profits received will increase. Therefore, the president director who also benefits will not do earnings management (P. W. Astuti, 2017).

ROA (profitability) has a significant effect with a positive coefficient of 0.711 on earnings management using as a proxy abnormal discretionary expense. The results of this study support the research conducted by Puspitasari (2019). This shows that the higher the profitability (return on assets) generated will have an effect on earnings management. The higher the ROA of the company indicates that the company's assets will be used optimally in order to generate profits. If the company earns a profit or a condition of high profitability, then the company tends to carry out earnings management by increasing or decreasing profits so that the resulting profit is consistent (Sakdiyah et al, 2020).

The result of LEV (leverage) has a significant effect with a positive coefficient of 1.193 on earnings management with as proxy abnormal accruals. The results of this study support the research conducted by Astuti et al. (2017). This shows that the higher the level of leverage will improve earnings management practices. The greater the ratio leverage indicates the greater the

debt or interest expense of the company, so that the level of the company's dependence on external parties such as creditors is getting higher. Therefore, managers make decisions to increase income, such as improving positional bargaining when negotiating debt or to get funds from creditors or investors (Astuti et al, 2017).

The result of LEV (leverage) does not have a significant effect on earnings management using as a proxy abnormal discretionary expense. The results of this study support the research conducted by Andriyani and Khafid (2014). This shows that a company with a level of leverage high will face risk of default, a high which is a condition where the company cannot fulfill its debt obligations. This obligation must be fulfilled and cannot be avoided by earning management (Jao and Pagalung, 2011).

CONCLUSION

This study aims to the effect of the characteristics of the president director on earnings management for manufacturing companies listed on the IDX from 2016 to 2019, especially in age and MBA degree characteristics. These results indicate that the age of the president director

has an effect on earnings management which is proxied by abnormal accruals while it does not affect earnings management which is proxied by abnormal discretionary expense. These results support the upper echelons theory which predict that as the president gets older, the president tends to avoid risk. The education of the president director, which is proxied by having an MBA, has an effect on earnings management. President directors who take the MBA program will be more courageous and confident in reporting profits, this is because the president director learns analytical techniques that lead the president to tend to avoid losses and mistakes.

This study has literature implications for agency theory and upper echelons theory. These results are expected to provide recommendations to stakeholders, especially shareholders in selecting and appointing the president director by considering age and education. This research is expected to provide recommendations to regulators in determining qualifications or requirements to become president director, such as considering age and education.

This study focusses on observable characteristics of president director, such as age and MBA degree. Our findings have an implication for the test of president director characteristics from psychological characteristics of the president director such as overconfidence, integrity and narcissism and can increase earnings management measurements such as abnormal cash flow from operation and abnormal production cost by Roychowdhury (2006) to measure real activity earnings management or use other measures such as the McNichols (2002) model, namely the cross-sectional model of accruals to measure accrual earnings management.

REFERENCES

Ali, A., & Zhang, W. (2015). CEO tenure and earnings management. *Journal of Accounting and Economics*, *59*(1), 60–79. https://doi.org/10.1016/j.jacceco.2014.11.004

Andriyani, R., & Khafid, M. (2014). Analisis Pengaruh Leverage, Ukuran Perusahaan Dan Voluntary Diclosure Terhadap Manipulasi Aktivitas Riil. *Accounting Analysis Journal*, *3*(3), 273–281. https://doi.org/10.15294/aaj.v3i3.4191

Arifin, L., & Dectriana, N. (2016). Pengaruh Firm Size , Corporate Governance , Dan Karakteristik Perusahaan Terhadap Manajemen Laba. *Jurnal Bisnis Dan Akuntansi*, *18*(1), 1–93.

Astuti, A. Y., Nuraina, E., & Wijaya, A. L. (2017). Pengaruh Ukuran Perusahaan Dan Leverage Terhadap Manajemen Laba. *The 9th FIPA: Forum Ilmiah Pendidikan Akuntansi*, *5*(1), 501–514.

Astuti, P. W. (2017). Pengaruh Profitabilitas, Ukuran Perusahaan, Leverage, dan Kualitas Audit Terhadap Manajemen Laba. In *Skripsi Universitas Muhammadiyah Surakarta* (pp. 1–17).

Bassiouny, S. W. (2016). The impact of firm characteristics on earnings management: an empirical study on the listed firms in Egypt. *Journal of Business and Retail Management Research (JBRMR)*, *10*(3), 34–45.

Bouaziz, D. (2020). *CEO characteristics and earnings management : empirical evidence from France*. *18*(1), 77–110. https://doi.org/10.1108/JFRA-01-2019-0008

Cheng, L. T. W., Chan, R. Y. K., & Leung, T. Y. (2010). Management demography and corporate performance: Evidence from China. *International Business Review*, *19*(3), 261–275. https://doi.org/10.1016/j.ibusrev.2009.12.007

Davidson, W. N., Xie, B., Xu, W., & Ning, Y. (2007). The influence of executive age, career horizon and incentives on pre-turnover earnings management. *Journal of Management and Governance*, *11*(1), 45–60. https://doi.org/10.1007/s10997-007-9015-8

Fajrian, H. (2020). *TPS Food Sajikan Ulang Lapkeu 2017, Rugi Membengkak Jadi Rp 5 Triliun*. https://katadata.co.id/happyfajrian/finansial/5e9a495cb39ca/tps-food-sajikan-ulang-lapkeu-2017-rugi-membengkak-jadi-rp-5-triliun

Fatimah, D. (2019). Pengaruh Board Diversity terhadap Manajemen Laba. *Journal of Applied Accounting and Taxation*, *4*(2), 223–233.

Ghozali, I. (2018). *Aplikasi Analisis Multivariate Dengan Program IBM SPSS 25* (9th ed.). Badan Penerbit Universitas Diponegoro.

Gounopoulos, D., & Pham, H. (2018). Financial Expert CEOs and Earnings Management Around Initial Public Offerings. *International Journal of Accounting*, *53*(2), 102–117. https://doi.org/10.1016/j.intacc.2018.04.002

Hambrick, D. C. (2007). Upper echelons theory: An update. *Academy of Management Review*, *32*(2), 334–343. https://doi.org/10.5465/AMR.2007.24345254

Hambrick, D. C., & Mason, P. a. (1984). Echelons : of Reflection The Its Organization as Top a. *Management*, *9*(2), 193–206. https://doi.org/10.2307/258434

Handayani, R. S., & Rachadi, A. D. (2009). Pengaruh Ukuran Perusahaan Terhadap Manajemen Laba. *Bisnis Dan Akuntansi*, *11*(1), 33–56. https://doi.org/10.1143/PTP.105.537

Hasty, A. D., & Herawaty, V. (2017). Pengaruh Struktur Kepemilikan, Leverage, Profitabilitas Dan Kebijakan Dividen Terhadap Manajemen Laba Dengan Kualitas Audit Sebagai Variabel Moderasi. *Media Riset Akuntansi, Auditing & Informasi*, *17*(1), 1. https://doi.org/10.25105/mraai.v17i1.2023

Healy, P. M., & Wahlen, J. M. (1999). A Review of the Earnings Management Literature and Its. *Accounting Horizons*, *13*(4), 365–383. https://doi.org/10.2308/acch.1999.13.4.365

Herman, J. L., & Smith, B. (2015). Upper Echelons Theory. *Wiley Encyclopedia of Management*, 1–1. https://doi.org/10.1002/9781118785317.weom060209

Herrmann, P., & Datta, D. K. (2006). CEO experiences: Effects on the choice of FDI entry mode. *Journal of Management Studies*, *43*(4), 755–778. https://doi.org/10.1111/j.1467-6486.2006.00610.x

Isidro, H., & Gonçalves, L. (2011). Earnings management and CEO characteristics in Portuguese firms. *Corporate Ownership and Control*, *9*(1 A), 86–95. https://doi.org/10.22495/cocv9i1art5

Jao, R., & Pagalung, G. (2011). Corporate Governance, Ukuran Perusahaan, dan Leverage terhadap Manajemen Laba Perusahaan Manufaktur Indonesia. *Jurnal Akuntansi & Auditing Indonesia*, *8*(1), 43–54.

Kurniawansyah, D. (2018). Apakah Manajemen Laba Termasuk Kecurangan ? : Analisis Literatur. *Jurnal Riset Akuntansi Dan Bisnis Airlangga*, *3*(1), 341–356. https://doi.org/10.31093/jraba.v3i1.97

Kwalomine, A. L. (2018). Pendidikan, Masa Jabatan Direktur Utama Dan Pengungkapan Corporate Sosial Responsibility (Csr). *Jurnal Riset Akuntansi Terpadu*, *11*(1), 72–82. https://doi.org/10.35448/jrat.v11i1.4224

Lovata, L. M., Schoenecker, T. S., & Costigan, M. L. (2016). CEO characteristics, compensation and real activity management in manufacturing companies. *Academy of Accounting and Financial Studies Journal*, *20*(3), 103–114.

Majid, M., Lysandra, S., Masri, I., & Azizah, W. (2020). Pengaruh Kecakapan Manajerial Terhadap Manajemen Laba Akrual dan Riil. *Jurnal Ilmiah Akuntansi Dan Manajemen (JIAM)*, *16*(1), 70–84. https://doi.org/https://doi.org/10.31599/jiam.v16i1.115

Miller, D., & Xu, X. (2019). MBA CEOs, Short-Term Management and Performance. *Journal of Business Ethics*, *154*(2), 285–300. https://doi.org/10.1007/s10551-017-3450-5

Na, K., & Hong, J. (2017). CEO gender and earnings management. *Journal of Applied Business Research*, *33*(2), 297–308. https://doi.org/10.19030/jabr.v33i2.9902

Nadkarni, S., & Herrmann, P. (2010). CEO personality, strategic flexibility, and firm performance. *Academy Management Journal*, *53*(5), 1050–1073.

Novilia, O., & Nugroho, P. (2016). *Pengaruh Manajemen Puncak Wanita Terhadap Manajemen Laba*. *5*(1), 27–45.

Nurmayanti M, P. (2020). *Karakteristik Chief Executive Officer (CEO) dan Kualitas Akrual : Bukti Empiris dari Indonesia*. *3*(1), 1–29.

Peni, E., & Vähämaa, S. (2010). Female executives and earnings management. *Managerial Finance*, *36*(7), 629–645. https://doi.org/10.1108/03074351011050343

Puspitasari, N. (2019). PENGARUH ASMETRI INFORMASI, LEVERAGE DAN PROFITABILITAS TERHADAP MANAJEMEN LABA RIIL. *Jurnal Manajemen Pelayaran Nasional*, *2*(1), 36–45.

Qawasmeh, S. Y., & Azzam, M. J. (2020). Ceo characteristics and earnings management. *Accounting*, *6*(7), 1403–1410. https://doi.org/10.5267/j.ac.2020.8.009

Qi, B., Lin, J. W., Christine, H., & Lewis, X. (2018). *The Impact of Top Management Team Characteristics on the Choice of Earnings Management Strategies: Evidence from China*. *32*(1), 143–164. https://doi.org/10.2308/acch-51938

Roychowdhury, S. (2006). Earnings management through real activities manipulation. *Journal of Accounting and Economics*, *42*(3), 335-370. https://doi.org/10.1016/j.jacceco.2006.01.002

Sakdiyah, H., Salim, A., & Rahman, F. (2020). Pengaruh Ukuran Perusahaan, Umur Perusahaan, Profitabilitas Dan Leverage Terhadap Manajemen Laba. *E-Jurnal Riset Manajemen*, 109-123.

Vernando, A., & Rakhman, F. (2018). Masa Kerja Ceo Dan Manajemen Laba (Ceo Tenure and Earnigs Management). *Jurnal Akuntansi Dan Keuangan Indonesia*, *15*(2), 202–216. https://doi.org/10.21002/jaki.2018.11

Zhou, J., & Elder, R. (2004). Audit quality and earnings management by seasoned equity offering firms. *Asia-Pacific Journal of Accounting & Economics*, *11*(2), 95–120. https://doi.org/10.1080/16081625.2004.10510638