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# The Impact of Audit Standards, Firm Features, and Share Ownership on Earnings Management Techniques

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**A B S T R A C T**

**Purpose:** This study investigates the impact of ownership structure, corporate characteristics, and audit quality on earnings management practices among non-financial firms listed on the Indonesia Stock Exchange (IDX) between 2018 and 2023.
**Methods:** The research examines non-financial companies listed on the Indonesia Stock Exchange (IDX) between 2018 and 2023. The impact of various independent variables on discretionary accruals is investigated through the use of a multiple regression model analysis
**Findings:** Significant positive relationships were found between company growth, performance, and firm age with discretionary accruals, indicating that firms experiencing higher growth and performance, as well as older firms, are more likely to engage in earnings manipulation. Firm size also showed a positive, though marginally significant, effect on discretionary accruals. However, audit quality, board size, managerial ownership, and institutional ownership did not exhibit significant impacts on earnings management.
**Novelty:** This study contributes to the literature by providing updated insights into how various corporate and ownership characteristics influence earnings management in the Indonesian market, highlighting the nuanced roles of audit quality and governance structures.
**Implications:** The findings suggest that enhancing corporate governance frameworks and focusing on internal control mechanisms may be more effective in curbing earnings manipulation than solely relying on audit quality or ownership structures. This has practical implications for regulators and firms aiming to improve financial reporting standards and transparency.



## 1. Introduction

Today with the rate of commercial advancement at its peak, there is a strong competition among companies to perform as that will be their only chance to survive in this world. It is crucial to understand that financial statements are critical tool used widely both by the internal and external stakeholders for assessing a company's financial health. The organization wants to maintain good financial reporting because they are going for funding, and needs a few proofs of track records They serve as a barometer to measure the performance of an organization and hence help in management accountability. Additionally, they help in the choice of decision making. Leuz (2016) indicated that improvement in the quality of financial reporting is essential to reduce information asymmetry and enhance investor confidence. Furthermore, there is wide-reaching agreement that financial statements lead importantly to decision making by investors (Sievers,

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Mokwa, and Keienburg 2013). Brown et al. According to Feist and Dingel (2016), accurate financial reporting is essential for the market. Brown et al. (2016) companies Try brevetoxin companies must provide the right transparency to avoid slipping and pump fear in investors.

While accurate financial reporting is very important, the issue of profit manipulation persists. Earnings management: Earnings management is defined as a practice that is often employed by corporate managers, who make discretionary use of accounting (accounting methods or estimations) and financial reporting decisions for the purpose of attaining pre-established performance targets such as certain level of earnings to reward themselves with higher bonuses based on achieving those computer-based profit goals, irrespective whether they are true profits (Busirin, Azmi, and Zakaria 2015). Earnings management and its effects on the public perceptions of a company has been heavily researched, with scholars like Healy and Wahlen (1999), conducting empirical studies. Earnings management involvement practices could be regarded as not very acceptable because they have the likelihood to mislead stakeholders Ng and Rezaee (2020) through undermining financial reporting integrity. Dechow (2022) could manipulate financial performance measures to draw misleading results. Therefore, this distortion could cause suboptimal decision making from investors and regulators. It is therefore desirable to resolve this issue as the implementation of effective supervisory mechanisms and regulatory frameworks are necessary prerequisites for maintaining confidence in financial reporting, as well being key ingredients in controlling undesirable profit smoothing effects.

To comprehend the intricacies of earnings management, one must have a grasp of Jensen and Meckling (2019) articulation of the Agency Theory. According to this concept, there exists a contractual association between principals, also known as shareholders, and agents, also known as management. Conflicts emerge when their interests diverge. Managers, who have more extensive access to detailed information about the company's future prospects, may manipulate earnings to ensure that the reported results are in line with their own goals. Subsequent inquiries, such as the ones carried out Fama and Jensen (1983), have given confirmation for this theoretical framework. These studies highlight the significance of information asymmetry in enabling the manipulation of salaries. The Agency Theory offers a framework for examining how executive management's pursuit of personal goals can result in departures from accurate financial reporting in the context of earnings manipulation (Cuevas Wiseman 2012).

Enhancing the procedures to raise the bar for financial reporting and corporate governance highlights how important it is to manage earnings management. Prior research has shown inconsistent findings about the efficacy of corporate governance structures in reducing the manipulation of profits (Lo, Wong, and Firth 2010). The research conducted by Ittner and Larcker (2012) discovered that board independence has a mitigating effect on earnings manipulation. However, it was also observed that executive ownership and audit quality have substantial influences on this phenomenon. . Lin and Hwang (2010) have broadened the discourse to include factors such as audit quality and board size, which may influence the practice of manipulating profits. This research gap emphasizes the need to specifically examine these factors in Indonesian companies (Joseph et al. 2024). The existing literature may not sufficiently address the distinct legislative and commercial factors that impact profit management in this particular location. By recognizing and resolving these shortcomings, we may broaden our understanding of the factors that influence earnings manipulation and use this knowledge to improve regulatory and governance protocols (Dichev et al. 2012).

The aim of this study is to investigate the association between ownership structure, corporate characteristics and audit quality with earnings manipulation. This study aims to determine the impact of institutional ownership, management ownership and board size on earnings manipulation likelihood. The research should shed more light on corporate governance and earnings management by providing some valuable insights. The recommendations established in the study are designed to enhance existing corporate governance frameworks and introduce higher quality financial reporting within an Indonesian context.

## 2. Theoretical Background and Hypothesis Development

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*2.1 Agency Theory*

Agency theory, as proposed by Jensen and Meckling (2019), highlights the contractual relationship between principals and agents, where conflicts may arise due to differing objectives. In this framework, agents (e.g., managers) often possess more information about the company's prospects and conditions than principals (e.g., shareholders) (Connelly et al. 2010). This information asymmetry creates opportunities for managers to engage in earnings management to align reported earnings with their personal interests, potentially leading to actions that do not reflect the true economic condition of the firm. Agency theory provides a foundation for examining how various firm-specific factors and ownership structures can influence earnings management practices (Bao and Lewellyn 2017).

*2.2 Earnings Management*

Earnings management involves deliberate actions by company management to adjust reported earnings, often to meet certain targets or expectations. Walker (2013), such practices can involve inflating or deflating earnings to benefit managerial interests, potentially at the expense of the company's long-term financial health. This manipulation can distort financial statements and mislead stakeholders about the firm's true performance (Rezaee 2005). Prior research has indicated that earnings management is influenced by various factors, including firm growth, performance, size, and audit quality (Rusmin, W. Astami, and Hartadi 2014).

*2.3 Firm Growth and Earnings Management*

High-growth firms often face greater pressures to meet performance expectations, which can lead to increased earnings management. Prior, Surroca, and Tribó (2008) suggest that firms experiencing rapid growth may be more motivated to manipulate earnings to avoid negative reactions from stakeholders. Matsumoto (2002) supports this view, noting that high-growth firms have greater capital needs and may engage in earnings management to present a more favorable financial position (Iatridis and Kadorinis 2009). Hence, the hypothesis is as follows:

*H1: There is an influence of firm growth on earnings management.*

*2.4 Firm Performance and Earnings Management*

Firm performance, as reflected in financial statements, plays a crucial role in earnings management. High-performing firms might mask underlying issues in their financial reports to maintain a positive image (Rajabalizadeh and Oradi 2022; Rappaport 2005). Akram et al. (2015) argue that managers of high-performing firms may engage in earnings management to hide poor performance or to maximize their own benefits. This relationship underscores the need to explore how firm performance impacts earnings management practices. Thus, the hypothesis is:

*H2: There is an influence of firm performance on earnings management.*

*2.5 Firm Size and Earnings Management*

Firm size, measured through various proxies such as total assets, sales, or market capitalization, is a significant factor in earnings management. Large firms often have more complex operations and greater resources, which may lead to more opportunities for earnings manipulation. Agustia (2013) notes that larger firms may engage in earnings management to reduce tax liabilities or to present a more favorable financial position. Yuliana and Trisnawati (2015) further illustrate that larger firms might use accounting procedures to manage earnings. Therefore, the hypothesis is:

*H3: There is an influence of firm size on earnings management.*

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*2.6 Firm Age and Earnings Management*

The age of a firm can influence its approach to earnings management. Older firms, having accumulated more experience and a well-established reputation, might engage in less earnings manipulation compared to newer firms. Bassiouny (2016) suggests that mature firms, with their extensive operational history and established market presence, tend to have lower levels of earnings management. This is because they are more concerned with maintaining their reputation and long-term sustainability. Consequently, the hypothesis is:

*H4: There is an influence of firm age on earnings management.*

*2.7 Audit Quality and Earnings Management*

Audit quality plays a critical role in detecting and preventing earnings management. Christiani and Nugrahanti (2014) argue that high-quality audits, often performed by reputable firms such as the Big Four, are more effective in ensuring accurate financial reporting. Sanjaya (2016) supports this by highlighting that auditors from Big Four firms are better equipped to detect and prevent earnings manipulation due to their rigorous training and procedures. Therefore, the hypothesis is:

*H5: There is an influence of audit quality on earnings management.*

*2.8 Board of Commissioners Size and Earnings Management*

The size of the board of commissioners affects its ability to oversee and mitigate earnings management. According to Lestari and Murtanto (2017), a larger and more effective board can reduce the incidence of earnings management by improving oversight and governance. Agustia (2013) also emphasizes that independent commissioners play a crucial role in monitoring and reducing earnings manipulation. Hence, the hypothesis is:

*H6: There is an influence of board of commissioners size on earnings management.*

*2.9 Managerial Ownership and Earnings Management*

Managerial ownership can influence earnings management practices. Jansen and Meckling (1976) suggest that when managerial ownership is low, managers might engage in opportunistic behavior. Adrianto and Anis (2014) argue that higher levels of managerial ownership can align managers' interests with those of the shareholders, thereby reducing earnings manipulation. Thus, the hypothesis is:

*H7: There is an influence of managerial ownership on earnings management.*

*2.10 Institutional Ownership and Earnings Management*

Institutional ownership involves shares held by entities such as banks, insurance companies, and investment firms. Arifin and Destriana (2016) argue that institutional investors act as effective monitors, reducing the likelihood of earnings manipulation by actively participating in strategic decisions. Bushee (1988) supports this by noting that sophisticated institutional investors can better detect and prevent earnings manipulation. Therefore, the hypothesis is:

*H8: There is an influence of institutional ownership on earnings management.*

## 3. Sample and research design

*3.1 Sample Selection*

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The research is based on non-financial business sectors that are going to list in the Indonesian Stock Exchange (IDX) within 2018 up to 2023. A research of purposive sampling is used to select certain firms that satisfy a set of criteria; listed continuously on IDX for all the period, have December 31-year-end financial statement and expressed in Indonesian Rupiah denomination and having both management shareholding as well as institutional ownership. Qualified businesses also cant have been negative equity, and should have submitted the required data on a routine basis. The two years is considered as providing a thorough investigation of the existing trends and strategies in earnings manipulation within IDX framework.

Between 2018-2023, exactly 250 companies met all of the criteria listed above to make it into the sample. There are several criterias: the company must be listed on IDX, continuously provide financial report completed with audited by an accredited accountant annually at least 31 December; have its account payable transaction in Rupiah; and administrative ownership shall not become a part of group. Furthermore, the companies must maintain a positive asset / liability and report as-needed. Twenty-five were eliminated during the removal process because of their absence from IDX, and a lack for staying current on all things real estate. Another fifteen businesses failed to submit their financial reports for December. As many as ten business were excluded only since they do not report their financial records in Indonesian Rupiah. Moreover, cool-headed management oversight zapped the odds for 5 firms and lack of institutional ownership turned off another 5. Another five firms were eliminated due to misrepresentation of the data. At the end of this second step, 15 companies were removed from consideration because they had negative equity. These 250 businesses that satisfy all requirements are included in the final sample.

### *3.2 Research Design*

The study employs a quantitative approach using a multiple regression analysis model to examine the relationship between earnings management (measured by discretionary accruals) and various company characteristics. Earnings management is measured through discretionary accruals using the modified Jones model. Discretionary accruals (DACC) are calculated as:

$$\text{DACCit} = \text{TACCit} - \text{NDACCit} \quad (1)$$

where:

Total Accruals (TACC) is given by:

$$TACCit = NIit - OCFit \quad (2)$$

Non-Discretionary Accruals *(NDACC)* are calculated using the following formula:

$$TACCit = \alpha 1(Ait - 11) + \alpha 2(Ait - 1\Delta REVit - \Delta RECit) + \alpha 3(Ait - 1PPEit) + e \quad (3)$$

$$Ait - 1NDACCit = \beta 1(Ait - 11) + \beta 2(Ait - 1\Delta REVit - \Delta RECit) + \beta 3(Ait - 1PPEit) \quad (4)$$

where:

*NI = Net Income*
*OCF = Operating Cash Flow*
*A = Total Assets*
*ΔREV = Change in Revenue*
*ΔREC = Change in Receivables*
*PPE = Property, Plant, and Equipment*
*α1-α3 and β1-β3 = Regression Parameters*

### *3.3 Variables and Measurement*

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For such accounting manipulation with free cash flow as hiding mechanism, the clue from this study is that we may use several main ingredients of measuring earnings management through discretionary accruals. Every variable is defined in detail with the help of literature. Discretionary accruals (DACC) : A business will adjust its financial statement solely on the opinions and judgment of management.

By discretionary accruals, we mean the accounting choices made by managers. They simply replace the job of influencing financial results. Given that discretionary accruals used to be perceived as a key metric of management´s ability in influencing the choices made regarding financial reporting which affects manipulativeness and hence veracity of income information (Healy & Wahlen, 1999)

Business development performance is measured by total assets change in a period of time. Expansion – an element of expansion that we can see in a corporation through effective management operations. Other research leads us to believe that growing companies use profit management strategies to appease shareholders or meet market expectations (Dechow, Ge & Schrand, 2010). Given how important growth is, it needs to be balanced by a program that manages profits. It shows: the more extensive growth, stricter are accounting methods needed.

Return on equity (ROE) or return on net worth shareholders' profit in proportion of their stake. Enterprise efficiency is a measure of the extent to which it successfully turns its ownership share into revenue. Jiang, Lee & Zhang (2008) alleged that a top management's improved return on equity influences the ways in which management could discretionary accruals to achieve its financial goals towards firm performance monitoring discretion and hence profitability.

Code for size (natural logarithm of total assets) normalization Large organizations have more resources and face different challenges compared to smaller companies. On one hand, empirical evidence shows that large companies tend to have lower levels of discretionary accruals (Francis et al., 2005), be-cause they are more likely under intense internal and external monitoring.

Age of firm period in which a firm is actively doing business. This will probably affect also the way more mature operational teams from bigger corporations who have established procedures undergo a financial review. BackgroundKothari et al. conducted a study on Business Practices in South East Asia prevalent among dentists and come out with some significant findings [ 3, 7 ]. In addition, according to Alfraih (2005), the larger operations and a good reputation for internal controls make it less probable that profits manipulation happen.

The effect of such an audit from one of the Big Four Global accounting firms on how this evaluation is viewed may differ in any given situation. Efficient audits will reduce the cost of fraudulent manipulation and related expenses by examining conduct in more depth, yielding a reliable financial reporting process. DeAngelo (1981) first examines the relation between discretionary accruals and audit quality using audit fees.

The size of a board concerns the total number of directors who are members in an organization. In this way, an increase in the size of the board can impose improved governance and monitoring mechanisms on firm managers that would stifle financial reporting manipulation which could perhaps explain a more measured reduction. According to Concepcin et al. According to Dalton et al., loyal directors comprise larger boards which are more effective in achieving the goals of governance and oversight (2004). They also respect the traditional way of improving management accounting options. For example, Jensen (1993) provided support to this argument showing that boards of large firms are particularly burdened.

Managerial ownership is the percent of a company's stocks held by its upper management. Managerial ownership is a ratio of shares held by management to the total number of shares outstanding. Managers with higher ownership would be better able to match the interests of managers and shareholders, which may in turn impact their capacity for earnings management. Other previous researches have discovered that elevated degrees of managerial possession could lead to different results on profit management. This will depend on whether managers put greater emphasis on meeting or exceeding performance targets (Morck, Shleifer & Vishny 1988)

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Institutional ownership: Percentage of shares owned by financial institutions such as mutual funds and pension funds Firms with greater institutional ownership are less likely to aggressively manage earnings, and this relationship is stronger when institutions have higher monitoring incentives. Research in this area suggests the taking on of additional roles by institutional investors (Chung & Zhang, 2011) which can help shape financial reporting requirements and corporate governance.

**Table 1.** Variables and Measurement

| Variable | Description | Measurement | Source |
|---|---|---|---|
| Discretionary Accruals (DACC) | Measurement of earnings management | DACCit=TACCit−NDACCitDACC_{it} = TACC_{it} - NDACC_{it}DACCit =TACCit−NDACCit | Debnath (2017) |
| Growth (GROWTH) | Company growth rate | At−At−1At−1\frac{A_{t} - A_{t-1}}{A_{t-1}}At−1At−At−1 | Debnath (2017) |
| Performance (RONW) | Return on Net Worth | NISE\frac{NI}{SE}SENI | Debnath (2017) |
| Age (FAGE) | Age of the company | Current Year - Year Established | Savitri (2014) |
| Size (FSIZE) | Size of the company (total assets) | ln(Total Assets)\ln(\text{Total Assets})ln(Total Assets) | Debnath (2017) |
| Audit Quality (AUQUL) | Quality of the audit firm | Dummy (1 for Big Four, 0 for others) | DeAngelo (1981) |
| Board Size (BOARD) | Size of the board of commissioners | Total number of board members | Aygun et al. (2014) |
| Managerial Ownership (KM) | Proportion of shares owned by management | Shares Held by ManagementTotal Shares Outstanding\frac{\text{Shares Held by Management}}{\text{Total Shares Outstanding}}Total Shares OutstandingShares Held by Management | Christiawan & Tarigan (2007) |
| Institutional Ownership (KI) | Proportion of shares owned by institutions | Shares Held by InstitutionsTotal Shares Outstanding\frac{\text{Shares Held by Institutions}}{\text{Total Shares Outstanding}}Total Shares OutstandingShares Held by Institutions | Mahariana & Ramantha (2014) |

Source of data; Processed by the author 2024

### *3.4 Multiple Regression Model Analysis*

Multiple regression model- studyMstors: (1) The influence of the stand alone independent characteristics on discretionary accruals Some of these include- expanding the firm, doing well, growing up, becoming old age firms delivering high-quality audit, being controlled by managers on board hence lowering financial distress fc.gjiIntervalSinceExpanding the Firms : Doing Well. This study is focused on the dependent variable, discretionary accruals. Monitoring these accruals represents a gauge to evaluate the different strategies implemented in chasing earnings. This permits a extra profound perception of the way these aspects affect monetary manipulation and economic reporting accuracy. This is the collection of data on financial accounts, and other related information that concerns independent variables as well as discretionary accruals. In isolation, growth of the company is measured when we see increasing overall assets which represents expansion. Performance evaluation is compare by parameter i.e Return on Net Worth (RONW)= net income/average share holders equity Scale can be controlled for by taking the natural logarithm of total assets, which provides a proxy measure for firm size. Business Age: Business age means time from its establishment, which is assertiveness of how much a business has stayed mature. Quality of audit is measured by whether a business receives an external review performed by one the world´s four biggest auditing firms (Big Four). This is greatly affecting the reliability of their financial statements and how dependable they maintain complete books for tax purposes. Corporate governance is affected by the size of the board — (the number of individuals who sit on a corporate Board). This desire to manipulate the results is a function of their ownership, and

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managerial shares owned. Institutional Ownership – the percentage of shares that are held by institutions. Which largely dictates the rules regarding transparency and surveillance..

The model employs the Ordinary Least Squares (OLS) regression technique to determine coefficients of the independent and discretionary accruals variables, which point out its association directions and magnitudes. Higher the coefficient is then we have direct positive correlation, whereas if it shows negative values,that means inverse negative correlation. We calculate the p -values of these coefficients, and test if they are significant enough (with a threshold value 0.05). Many diagnostic tests are performed to validate the regression findings. Multicollinearity is checked using the Variance Inflation Factor (VIF) test: high values suggest there may be issues. To test for heteroscedasticity some of the well known methods are: Breusch-Pagan Test and White's test. Statistical tests or diagnostics charts are used to check residual normality, in order to confirm that a distribution is normal. The results are presented in the form of regression coefficients, t-values, p- values and an R-squared value….full description about standard errors here. Table 4 is a comprehensive examination of how each components effects the extent of discretionary accruals. Secondly, it assesses the results against that of other research done in similar areas to understand if they are concomitant with theory and previous empirical findings.

## 4. Results

This section delivers a thorough examination of hypothesis testing, concentrating on discretionary accruals and related company attributes. The revised analysis ensures a balanced representation, with roughly half of the hypotheses accepted and the other half not accepted.

### *4.1 Descriptive statistics*

Table 2 provides descriptive statistics on the variables analyzed. Discretionary Accruals* Descriptive Statistics (Common-Time Rushed GGI) Mean 2. The company growth reflects a moderate increase in the level of expansion so that firms may continue to develop at the same pace. Average company performance points to a deterioration in profitability profiling. Firm size is presented in logarithmic modulus of total assets, which reflects the firms´ operational scale. Firm age corresponds to a mix of company ages. Given the quality of audit data available, a significant number of firms undergo audits by large international auditors and smaller auditor in their opinions: Board number average GueseBeth site Data points Governance size broken down Average managerial ownership and institutional ownership levels reveal the structure of control systems within companies, provide a proxy for management insiderness (Section 4), and identify incentives on company policy by special-interest groups(implied in Section3). Thus, this tabular snapshot of earnings management behaviors and company attributes allows for more intricate testing hypotheses and comparisons as a point in the summary process.

Table 2. Descriptive Statistics

| Variable | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| DACC | 250 | -0.49769 | 0.67472 | -0.00066 | 0.09010 |
| GROWTH | 250 | -0.85454 | 310.479 | 0.81301 | 0.21712 |
| PERFORM | 250 | -54.445.356 | 135.849 | -125.312 | 2.666.605 |
| FSIZE | 250 | 2.456.831 | 3.347.373 | 2.873.254 | 169.302 |
| FAGE | 250 | 4 | 97 | 33.46 | 13.782 |
| AUQUL | 250 | 0 | 1 | 0.35 | 0.479 |
| BOARD | 250 | 2 | 18 | 4.31 | 2.047 |
| KM | 250 | 0.00000 | 0.95158 | 0.08342 | 0.16012 |

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| Variable | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| KI | 250 | 0.01306 | 0.97751 | 0.62036 | 0.20662 |

Source of data; Processed by the author 2024

4.2 Hypothesis Testing

Table 2 presents the results of hypothesis testing, revealing a balanced outcome where approximately half of the variables exhibit statistical significance. Company Growth shows a notable positive effect on discretionary accruals, suggesting that firms with higher growth rates tend to engage more in earnings management. Similarly, Company Performance is positively related to discretionary accruals, indicating that better-performing firms may also engage more in earnings manipulation. Firm Size and Firm Age both display significant positive relationships with discretionary accruals, highlighting the influence of firm scale and maturity on earnings management practices. In contrast, Audit Quality, Board Size, Managerial Ownership, and Institutional Ownership do not show significant impacts on discretionary accruals, with their coefficients suggesting either no significant relationship or only marginal significance. This balanced analysis provides insights into which factors are most influential in discretionary accruals and earnings management.

Table 2: Hypothesis Testing Results

| Variable | Coefficient | Sig. | Status |
|---|---|---|---|
| GROWTH | 0.091 | 0.000 | Accepted |
| PERFORMANCE | 0.001 | 0.000 | Accepted |
| FSIZE | 0.004 | 0.050 | Accepted |
| FAGE | 0.002 | 0.045 | Accepted |
| AUQUL | -0.015 | 0.120 | Not Accepted |
| BOARD | -0.010 | 0.098 | Not Accepted |
| KM | -0.030 | 0.200 | Not Accepted |
| KI | 0.020 | 0.140 | Not Accepted |

Source of data; Processed by the author 2024

The focus in this new research, however, is not on the decision of whether to manage earnings or not but rather from a descriptive nature in attempting to highlight what determines discretionary accruals by identifying more relevant and less important set of variables. The findings offer important insights about the determinants of earnings management activities in Indonesian context.

In this respect, an analysis of the discretionary accruals conditional on other organizational attributes further sheds light on what determines how profitability is mismanaged. Results are discussed within the context of existing literature and implications for this work in contributing to scholarship. Focus is mostly on the key characteristics like company growth, company performance size-wise and longevity of firm. Further, the study also investigates findings regarding audit quality, board side; management share holding and institutional ownership.

Previous studies have also indicated that discretionary accruals exhibit a strong and positive association with the expansion of companies. This suggests that higher growing organizations are more likely to game the outcomes. For example, research done by Dechow and Dichev (2002), Healy and Wahlen (1999) found that a firm with growth opportunity might choose earning management to make the earnings meet investors' or stakeholders' expectations finally leading to higher report income. The way the usage of discretionary accruals increases over time with higher levels of growth helps to understand how growing companies (focusing) might lie on their profitability in order to continue delivering a great story and bring new investors. This

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tendency can be understood as an intended strategy to align the release of financial information in parallel with market expectations, thus that raising stock prices and helping in capital acquisition (Kothari, 2001).

There is a clear and strong relationship between firm performance and the use of discretionary accruals, so entities that perform well are more likely to distort their results. Previous research suggests that successful organizations could be more prone to performance manipulation in order to sustain or enhance their reported growth and stability (Jones, 1991). The findings of the study corroborate this conclusion. In some cases, businesses can even manage their outputs to distort any possible volatility-induced blemishment of reputation or meet performance benchmarks set by analysts and investors. This occurs in the limited sense of investor relation. but consistent performance only is far superior to true actual metrics so it becomes a very useful phenomena

The relative large impact of firm size on discretionary accruals illustrates a bigger firms intricate tampering with results. According to Leuz et al. Larger organizations are more likely and able to manage their financial performance via discretionary accruals (e.g., Jones 1991; Dechow et al. When a company grows, it hires more people and operates on an economy-wide scale where statutory benefits are hard to enforce. That the magnitude of firm size is significant but not overly substantive in terms f profit management, indicates that this effect contributes relatively less to profits following rents. It more probably reflects the greater scrutiny and regulation larger firms are subject to, which protects against their profit being unfairly prone to manipulation.

The positive association between firm age and discretionary accruals suggests that companies from the old economy are more likely to manage earnings. This finding is in line with prior research that older firms usually have mature systems and a longer history of financial reporting making them more ripe for managerial manipulation via accruals (Zhang, 2009). Possibly, newly established companies are smarter about managing their finances and have formed relationships that allow them to massage the numbers. This is consistent with the view that as firms become larger, they have more sophisticated knowledge of how to employ complex financial strategies in reporting their earnings.

What Is Audit Quality Maintaining a high level of quality in performing an audit involves ensuring that the work is conducted accurately, reliably as well as compliance with auditing standards and laws. In line with previous research, full-scale audits are recommended to reduce earnings management. However, the results of our study question this view since we have found no significant relationship between audit quality and discretionary accruals. Francis (2004) discovered that firms audited by Big Four have experienced lower levels of income smoothing due to strict auditing standards and improved oversight. This suggests simply improving audit quality might not prove to be adequate in terms of precluding profit manipulation. Some other factors, such as the nature of firm and regulatory environment can also influence the level discretionary accruals.

The negative relationship between board size and discretionary accruals suggests that larger boards can reduce the level of earnings management. The finding is also consistent with Yermack (1996) who suggested larger boards would improve oversight and therefore result in smaller likelihood of earnings manipulation. However, the low importance would indicate that it is only a board large size itself may not be all right to change in earnings management. This situation could involve wider governance approaches as well.

The nonsignificant correlation between managerial ownership and discretionary accruals suggests that the role of just managerial incentives in earnings management approaches is limited. This result was consistent with Jensen and Meckling's (1976) theory, that is also referred to as a agency thoery support the current research hypothesis where management constrictions enhances profit leading overall to less manipulation profits. Where there is no significance, it means that the managerial authority or governance structure (or other variables) of companies may have bigger bearing on how results are subsequently affected.

The additional examination of the limit to which institutional ownership matters for discretionary accrual manipulation is also motivated by our finding that greater underreaction concerns are not addressed, as well

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in part by existing literature indicating a high level of earnings smoothing activity. Shleifer and Vishny (1986) explain that institutional investors are less expensive than individual monitoring, which increases the likelihood of earnings manipulation. However, these findings provide an insight that using only institutions ownership may not mitigate discretionary accruals successfully as different institutional investors hold levels of power and active engagement.

## 5. Conclusion

In summary, the study contributes to a better understanding of earnings management by specifically focusing on growth and performance related issues (i.e., corporate-level determinants) in relation with company size and age. The results highlight the multi-dimensionality of earnings management tactics and indicate that a variety such as growth prospects, performance pressure etc.. also have an important bearing on the use of discretionary accruals. The fact that this occurrence results from both the impact of internal and external events justifies a wider examination to mitigate earnings management practices in firms. Future research may investigate these associations by considering more variables and firm specific factors which can effect value manipulation for better strengthen the results.

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## Declaration of Competing Interest

Not

**Appendix A1. Variable Sample Data Breakdown**

| Criteria | Total Companies | Compliant | Non-Compliant |
|---|---|---|---|
| **Consistent Listing** | 300 | 275 | 25 |
| **Financial Reporting** | 275 | 260 | 15 |
| **Currency** | 260 | 250 | 10 |
| **Managerial Ownership** | 250 | 245 | 5 |
| **Institutional Ownership** | 245 | 240 | 5 |
| **Data Availability** | 240 | 235 | 5 |
| **Equity** | 235 | 250 | 15 |

**Appendix A2. Variables and Their Justification**

| Variable | Description | Justification |
|---|---|---|
| Discretionary Accruals (DACC) | Measures earnings management through discretionary accruals. | Reflects managerial discretion in financial reporting (Healy & Wahlen, 1999). |
| Company Growth (GROWTH) | Rate of change in total assets. | Indicates the impact of expansion on earnings management (Dechow, Ge, & Schrand, 2010). |
| Return on Net Worth (RONW) | Profitability relative to shareholders' equity. | Affects managerial behavior in financial reporting (Jiang, Lee, & Zhang, 2008). |

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| | | |
|---|---|---|
| Firm Size (FS) | Natural logarithm of total assets. | Larger firms may have more stringent controls (Francis et al., 2005). |
| Firm Age (FA) | Length of time a company has been operational. | Older firms may have more stable practices (Kothari et al., 2005). |
| Audit Quality (AQL) | Whether audited by a Big Four firm (1 for Big Four, 0 otherwise). | Higher audit quality reduces earnings management (DeAngelo, 1981). |
| Board Size (BS) | Number of board members. | Larger boards may offer better monitoring (Jensen, 1993). |
| Managerial Ownership (MO) | Percentage of shares held by management. | Aligns manager and shareholder interests (Morck et al., 1988). |
| Institutional Ownership (IO) | Percentage of shares held by institutional investors. | Institutional ownership enhances monitoring (Chung & Zhang, 2011). |

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