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THE EFFECT OF CORPORATE GOVERNANCE MECHANISMS ON EARNINGS MANAGEMENT IN MALAYSIAN MANUFACTURING COMPANIES

Murad Ali Ahmad Al-Zaqeba[1+]
Abdul Hamid, S.[2]
Nehad Ibrahim Ineizeh[3]
Obada Jebreen Hussein[4]
Ala Hussein Albawwat[5]

[1,3]*Faculty of Business, Amman Arab University, Amman Jordan.*
[1]*Email: m.alzeqiba@aau.edu.jo*
[3]*Email: n.ineizeh@aau.edu.jo*
[2]*Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia, Nilai, Negeri Sembilan, Malaysia.*
[2]*Email: suhaila@usim.edu.my*
[4]*Teesside University, United Kingdom.*
[4]*Email: o.hussein@tees.ac.uk*
[5]*Faculty of Business, Accounting Department, Amman Arab University, Amman, Jordan.*
[5]*Email: bawwat_alaa@aau.edu.jo*

(+ Corresponding author)

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ABSTRACT

Earnings management (EM) firms produce less predictable accounting earnings that do not reflect the company's genuine financial success. However, EM is regarded as one of the most significant issues regarding financial reporting, especially in light of the COVID-19 pandemic. Nevertheless, this paper aims to investigate the effect of corporate governance mechanisms on earnings management in Malaysian manufacturing companies (MMCs). Data was collected from 2010 to 2019 for MMCs. By highlighting the updating of corporate governance rules, the market value and competitiveness of institutions will improve. Moreover, this paper provides evidence of the effect of corporate governance on earnings management. Therefore, the results may help policymakers to take a new approach to the development of corporate governance instructions, and stakeholders, which would enhance earnings quality and improve the quality of financial reports. This could help them build a more comprehensive picture of the firm and improve the decision-making process.

Contribution/Originality: This paper contributes to the body of knowledge and reduces the gaps related to earnings management in Malaysia. We formulated a model to include the characteristics of ownership structures, boards of directors, audit committees, and external auditor factors. In addition, we measured the corporate governance process and its effect on financial performance. This paper contributes to the development of a model linking with corporate governance mechanisms and earnings management in manufacturing companies; Which helps companies develop a governance system to increase their future profits. The study also contributed to the use of a set of control variables to examine the relationship between corporate governance mechanisms and earnings management in manufacturing companies.

1. INTRODUCTION

Many financial crises and scandals have rocked the global economy, including the bankruptcy of Enron in 2002, and WorldCom in 2004, making financial statement reliability and credibility a hot topic of debate. International accounting standards are designed to eliminate prejudice and objectivity in accounting measurement and to present financial data in a clear manner. However, the flexibility with which these standards allow management to choose between accounting rules and processes has led to management abusing this flexibility to achieve their purposes and aims, thereby jeopardizing the credibility of financial reports and, consequently, stakeholders. The concept of earnings management was established as a result. Earnings management is a crucial topic for research because it has the ability to smear the legitimacy of financial statements, which give crucial information to financial market players (Gull, Nekhili, Nagati, & Chtioui, 2018).

Earnings management strategies lead primarily to a misrepresentation of a company's true financial status. According to Mertzanis (2020), the collapse of global enterprises was caused by an imbalance of funding structures, the inability to meet outstanding commitments, the lack of supervisory systems, and the financial and administrative corruption of audit firms. As a result of the lack of internal control systems for managers' practices, interest in corporate governance has grown in recent years. The string of company failures shattered investors' and stakeholders' faith in the financial statements' accuracy and reliability. Financial scandals provide justification for new corporate governance regulations, such as the Sarbanes–Oxley Act, which has been in effect in the United States since 2002. The UK's Financial Reporting Council (FRC) updated Turnbull's internal control guidance in 2005 to align it with the set internal control reporting requirements in Section 404 of the Sarbanes–Oxley Act and related SEC rules (Arwinge, 2013). However, the need for more openness and credibility to protect both stakeholders and shareholders has arisen as a result of widespread knowledge following recent financial crises in industrialized countries, such as the United Kingdom and the United States of America. As a result, the publication of earnings data is one of the most powerful items in financial statements, influencing investment decisions, management decisions, and business activities of a company (Admati, 2017; Bandsuch, Pate, & Thies, 2008). Managers sometimes make changes to earnings management information in financial reports to either convey a more positive impression to stakeholders about the company's financial and economic performance or to influence contractual outcomes that are based on accounting statistics. In order to obtain desirable rewards, managers may be inclined to manipulate earnings information (Desai & Dharmapala, 2009; Lacina, Lee, & Kim, 2018; Libby, Rennekamp, & Seybert, 2015). Man (2013) and Nasrallah & El Khoury (2022) discussed a response made by regulators through the application of laws with the goal of enhancing financial transparency of earnings management through corporate governance.

Since the 1980s, corporate governance has become increasingly important in corporate management, particularly in the EU and the United Kingdom. Following the scandals involving businesses such as WorldCom and Parmalat in Italy and Enron in the United States, this topic has been regarded as one of the most important items on the international agenda since 2001 (Othman & Zeghal, 2010). When the Enron, WorldCom, and Parmalat scandals broke, the entire globe was stunned. As scandals were surfacing, CEOs, board members, and internal auditors were found to be acting unethically. When it came time to meet their obligations, they engaged in fraudulent activities or acted recklessly. According to Patel, Guedes, Soares, & da Conceição Gonçalves (2018), this is accomplished by the evaluation of financial statements following the completion of earnings management. However, previous research has not investigated the effects of corporate governance structures on Malaysian manufacturing companies (MMCs). Between 1995 and 2013, the Malaysia Securities Commission identified 19 instances of profit manipulation in Malaysia. According to PwC research, 48% of Malaysian businesses have been victims of white-collar crime, with only 25% wishing to strengthen their internal auditing systems and techniques. Furthermore, the average loss from fraud per company in Malaysia for the two years before the survey was $173,303, according to the PwC analysis (Fei, Li, & Zhu, 2022; Berlinger, Keresztúri, Lublóy, & Tamásné, 2022).

Moreover, earnings management firms produce less predictable accounting earnings that do not reflect the company's genuine financial success. According to Ben-Hassoun, Aloui, & Ben-Nasr (2018), several factors influence earnings management, including audit committee independence, board independence, corporate culture, and the presence of a chief executive officer who is both chairman of the board and the chief executive officer, among others. Moreover, Halaoua, Hamdi, & Mejri (2017) showed that the majority of earnings management research has focused on the aspects of the agency theory in terms of monitoring and financial motivation. In addition, other studies, such as Kim, Kwak, Lim, & Yu (2017), indicated the reasons for the prevalent occurrence of earnings management despite enhanced measures in corporate governance such as many corporate decisions are formulated by non-financial factors, like corporate governance as well as financial indicators can be limited by the accounting policies selected by the managers. Additionally, there have been various discrepancies identified between the findings of corporate governance and earnings management research, and scholars have been unable to identify the true relationship between corporate governance and earnings management (Gao, Meng, Chan, & Wu, 2017). However, the purpose of this paper is to investigate the effect of corporate governance mechanisms on earnings management in Malaysian manufacturing firms.

2. LITERATURE REVIEW

2.1. Corporate Governance

In practice and academic research, corporate governance continues to be a hot topic. The public discovery of gross financial reporting crimes by businesses such as WorldCom, Enron, Adelphia, and Parmalat, the unprecedented restatement of earnings, and the clear manipulation of earnings by company management have heightened and pervaded this interest (Amiram et al., 2018). According to academic studies such as Habib & Jiang (2015) and Lin & Wu (2022), there is a link between management weakness and financial reporting quality issues, earnings manipulation, fake financial statements, and insufficient internal controls. The literature reveals that weak corporate governance and earnings management are often due to management inadequacies (Alzaqebah et al., 2020; Xue & Hong, 2016).

2.2. Earnings Management (EM)

El Diri, Lambrinoudakis, & Alhadab (2020) describe EM as "intentional interference with the external financial reporting process with the goal of obtaining some private gain". The inclusion of external financial reporting in this definition emphasizes the issue of interference in the management of earnings based on publicly available information. Furthermore, earnings management is necessary when people use personal judgement in accounting information and structuring transactions to modify accounting information, either to mislead stakeholders about the actual economic performance of the company or to influence results and evaluations that rely on financial reporting (Amidu & Issahaku, 2019).

2.3. Jones (1991) Model

The Jones model was developed by Jones (1991) to set up a framework for earnings management while being investigated by the International Trade Commission for import relief where industry profitability and accounting numbers would influence the decisions made, and the managers were given the incentive to reduce the earnings with the aim of acquiring or intensifying import relief. Likewise, Jones (1991) indicated that earnings management is attainable through a number of ways (accruals, debt defeasance, changes in accounting methods, capital structure changes, and debt equity). The DeAngelo model, which served as the foundation for the Jones model, assumes that non-discretionary accruals (NA) have an approximately zero average change, so that changes in discretionary accruals (DA) are reflected by a change in total accrual (TA). However, the scenario examined by Jones found this assumption to be less acceptable. Total accruals, as described by Kaplan & Hill (1985), rely on a corporation's economic condition and decrease in revenue (as defined in this sample), which might result in a decrease in non-discretionary accruals.

2.4. Modified Jones (1991)

Dechow, Sloan, & Sweeney (1995) developed the Modified Jones model to address the estimation problems that underpin Jones (1991), stating that the issue of wrong identification in the Jones model is caused by excluding the independent variables used in portraying the managers' use of their discretion over revenues (Huang & Chen, 2022).

2.5. Information Asymmetry Theory

The success of efficient markets does not normally happen in the world of flawed and inadequate markets, such as Malaysia Wu, Chen, & Lee (2016) highlighted the fundamental situation for the existence of earnings management. Several earlier studies have interpreted two types of market imperfections – agency costs and information asymmetry. Asymmetric information, as defined by Abuhamdah, Alzaqebah, Jawarneh, Althunibat, & Banikhalaf (2021), is a situation in which some agents in a trade own information that is not held by other agents involved in the same trade. Chowdhury, Mollah, & Al Farooque (2018) suggested that the managers hold the corporations' private information as well as their current and prospective earnings streams, which are not in the possession of the existing and prospective shareholders, which may therefore permit earnings management to be undertaken by the managers (Alzaqebah, Jawarneh, Mohammad, Alsmadi, & Almarashdeh, 2021).

In general, both the beneficial and opportunistic agency theory viewpoints emphasize the relevance of information asymmetry since it leads to an undesired selection dilemma with regard to the benefits acquired by business insiders to the detriment of outsiders. Fundamentally, the two groups would be given different information, with one group having access to more accurate data than the other. Thus, outsiders are unable to evaluate relevant information to derive their own conclusions in comparison to insiders who are able to determine the risk level within the corporation (Al-Zaqeba & Al-Rashdan, 2020a; Chowdhury et al., 2018). Given the high possibility of their goals being interlinked with the corporations' activities and the market value, the managers, who are known as signalers, might be compelled to share information that is beneficial for their own individual purposes.

2.6. Agency Theory

Agency theory highlights potential problems that can arise when the interests of agents and principals differ. Directors hire agents to represent the principals' interests. Agents working as employees are obligated to serve the principals' interests. Problems arise when the agent begins to serve different interests, such as his own (Al-Zaqeba & Al-Rashdan, 2020b; Cuevas-Rodríguez, Gomez-Mejia, & Wiseman, 2012). Therefore, when each side has distinct motives, or when there are incentives that confuse the two parties, conflict emerges between the interests of principals and representatives. This is also known as the master–agent dilemma. The proposed solution includes concepts that use incentives to guide the interests of representatives. The curb on the effects of the agency problem and earnings exploitation by the managers has therefore given rise to a new cost named the 'agency cost' (Rossi, Barth, & Cebula, 2018; Varela, 2017). The agency costs refer to a situation when enhancement is made by the managers and other parties on their own pay-off instead of the corporation's value. This, as stated by Rossi et al. (2018), calls for monitoring of the managers' or agents' activities in order to moderate their management of earnings from the corporation's wealth. Hence, when the stakeholders' welfare is not maximized through the agent's actions, two types of bonding costs would be involved: one that is borne by the agent and the second is wealth loss that is borne by the principals (Namitha & Shijin, 2016). Overall, according to Ni, Chu, & Li (2017), agency theory works on the assumption that there is a likelihood for managers to function for their own benefit. Based on the contract theory, to safeguard the interests of all parties and ensure a successful organization, the introduction of certain mechanisms must therefore be made.

2.7. Stakeholder Theory

Stakeholder theory explains how company entities, such as employees, suppliers, local communities, creditors, and others, impact organizational management and business ethics (Orts & Strudler, 2009). Corporate social responsibility is concerned with the morals and values that govern the operation of a business, such as those derived from market economics and social contract theory. Likewise, the stakeholder view of the strategy integrates a resource-based view with a market-based view and adds a socio-political level. A common version of stakeholder theory seeks to define specific stakeholders of a company (identification of stakeholder normative theory) and then examines the conditions under which managers treat those parties as stakeholders (stakeholder explanatory theory salience) (Purwanto, 2017). Concepts similar to the modern stakeholder theory can be traced back to long-held philosophical views about the nature of civil society and relationships between individuals (Lipschutz & Rowe, 2006). First, an internal consensus emerged with the word "stakeholder" in current use by Doyle & Jones (1963); Strand & Freeman (2015). Later, definitions and theories of an "abundance" stakeholder were advanced (van Bruggen, Nikolic, & Kwakkel, 2019).

3. METHODOLOGY

The non-probability sampling approach was used in this paper to collect the data from the Malaysian Bursa from 2010 to 2019. A total of 289 companies were included in this study. All companies that did not have similar characteristics were excluded, in addition to companies that did not disclose the variables examined in this paper.

3.1. Board of Directors' Characteristics and Earnings Management

Previous studies measured board size (BSIZE) based on the number of representatives that were given in the firm's annual year-end financial report (Tulung & Ramdani, 2018; Yermack, 1996). According to Zgarni & Fedhila (2022), having more accomplished and experienced directors on the board would mean that they could better monitor and assess the aspects of management. For example, Saona, Muro, & Alvarado (2020) found that larger boards have a significant negative effect on earnings management practices. However, too many board representatives could hinder the jobs of independent directors through bureaucracy, as well as lead to conflicting interests and views (Li, Tseng, & Chen, 2016).

Based on the agency theory, several hypotheses have been established, arguing that having a larger proportion of non-executives on the board of directors can improve corporate performance (Abuhijleh & Zaid, 2022; Bebeji, Mohammed, & Tanko, 2015; Mihail, Dumitrescu, Micu, & Lobda, 2021; Min & Chizema, 2018). Temporarily, a high number of board executives could create personal monitoring problems, which could weaken the monitoring of the earnings management (Bianchi, Ciampolini, & De Munari, 2018; Chan, Estève, Escriba, & Campo, 2008). However, inputs from outside directors could improve the monitoring aspect of the firm (Adams & Ferreira, 2009; Chu & Oldford, 2022). Previous research has indicated that having outside directors on the board can help a company's earnings management (Epps & Ismail, 2009; Zalata, Ntim, Alsohagy, & Malagila, 2022). The outsider variable is normally calculated by dividing the total number of board representatives by the number of outsiders. Thus, this paper proposes the following hypothesis:

H1: Board of directors' characteristics positively affect earnings management in Malaysian manufacturing companies.

3.2. Audit Committee Characteristics and Earnings Management

The fact that the auditor's opinion on the correct and real appearance of the financial information prepared by the management is not published in a timely manner increases information asymmetry and uncertainty in investment decisions. This situation negatively affects investors' confidence in the capital market (Mohamad-Yusof, Wickramasinghe, & Zaman, 2018). In this context, the timely publication of financial information by companies is an important element of financial reporting quality, which plays an important role in the investment decisions of financial information users. However, the late publication of audit reports reduces the quality of financial information. Some studies show that many companies publish earnings management practices before finalizing their audit report (Majeed, Yan, & Zhong, 2022).

In general, there is a negative relationship between the value of financial information and the time taken to prepare audit reports. In many studies on the subject, empirical evidence has been provided to show that the publication time of the audit reports is the most effective factor in the publication of the financial statements (Chen, Chan, Owusu, Darko, & Gao, 2022; Park & Gil-Garcia, 2022; Thoradeniya, Lee, Tan, & Ferreira, 2022). In particular, the delay in the issue of audit reports will be reflected in the preparation of financial statements. The longer an auditor's report takes, the bigger the negative impact on the market will be (Areneke, Adegbite, & Tunyi, 2022; Athavale, Guo, Meng, & Zhang, 2022). Ghadhab, Matrood, & Hameed (2019) investigated the factors affecting the audit period of 102 companies that traded on the BIST between 2006 and 2011 and were obligated to prepare consolidated financial statements. Ghadhab et al. (2019) suggest that the total assets, leverage ratio, earnings news, the auditor's opinion, and the company's audit period during the busy season have a statistically significant link. However, a statistically significant relationship could not be determined between the liquidity of the enterprises, the number of affiliates, the type of auditor, and the audit period. Moreover, according to Abbasi, Alam, & Bhuiyan (2020), the audit committee is accountable for evaluating the effectiveness of internal auditor. In this study, various corporate governance components were used as variables to determine their effects on earnings management (Sato et al., 2012).

The audit committee requires a sufficient number of members with varying levels of professionalism and work experience to ensure its effectiveness. When confronted with complex accounting and financial challenges, the audit committee should also manage its resources effectively (Badolato, Donelson, & Ege, 2014; Dang & Nguyen, 2022; Doyle, Ge, & McVay, 2007; Eulerich, Kremin, & Wood, 2019). According to Pérez-Cornejo, De Quevedo-Puente, & Delgado-García (2019), the size of the audit committee could influence how issues are identified. The size could also be used to mitigate anticipated issues during the financial reporting process, since monitoring is one of their main responsibilities. Thus, this paper proposes the following hypothesis:

H2: Audit committee characteristics positively affect earnings management in Malaysian manufacturing companies.

3.3. External Auditor Factors

Issues could occur during the measurement of performance and how it relates to agent incentives. However, an auditor who is fully independent would avoid incentive-related problems that could surface if the manager is not adequately compensated by the firm (Esztergár-Kiss & Zagabria, 2021). Thus, external auditing has become an important instrument for monitoring business activity and perhaps increasing a firm's value (Kreilkamp, Matanovic, Schmidt, & Wöhrmann, 2020). Nonetheless, various measures can be implemented to determine the quality of an external audit. Thus, this paper proposes the following hypothesis:

H3: External auditor factors positively affect earnings management in Malaysian manufacturing companies.

3.4. Ownership Structure

Agency theory is an appropriate model to study this issue in developing countries with mostly family-owned firms (Lee, 2019). Previous studies have shown that a large proportion of individual ownership and family ownership can be associated with less earnings management. Nonetheless, managerial ownership is a complicated issue. Although this relationship is assumed to be negative, previous studies have confirmed a positive relationship (Cai, Kim, Li, & Pan, 2019; Dong, Wang, Zhang, & Zhou, 2020; Eng, Fang, Tian, Yu, & Zhang, 2019). These studies analyzed managerial ownership structure by utilizing the directors' share percentage. Thus, this paper proposes the following hypothesis:

H4: Ownership structure positively affects earnings management in Malaysian manufacturing companies.

4. FINDINGS

4.1. Descriptive Information of the Variables

This section contains information on the variables used in this investigation, and the descriptive information for the study variables is shown in Table 1.

Table 1. Descriptive information for the variables.

Variable	Dimension	Min.	Max.	Mean	Std. Dev.
Board of Directors Characteristics	BSIZE	3.00	13.0	8.12	1.40
	OUTSIDER	0.35	0.65	0.41	0.10
Audit Committee Characteristics	AC SIZE	2.00	7.00	4.21	1.210
	AC INDEPENDENCE	0.00	1.00	0.83	0.37
External Auditor Factors	Reputation	0.00	1.00	0.30	0.38
	Change	0.00	1.00	0.03	0.15
Ownership Structure	Managerial	0.02	0.45	0.31	0.08
	Family	0.01	0.27	0.18	0.06
Earnings Management by Accruals Modified Jones Model	AMJM	0.04	0.14	0.10	0.04

Table 1 reveals that the mean board size was 8.12, with a range of three to 13 members. The standard deviation is 1.401, showing that the number of board members is comparable. In other words, some corporations have a smaller board of directors, while others have a larger board of directors. This depends on the size and the complexity of those companies and their divisions.

The boards' outsiders were in the range of 0.35 to 0.65. The percentage of outsiders on the board of directors is divided by the total number of board members to calculate the outsiders. The outsider's mean is 0.4102, and the standard deviation is 0.0967, showing that the MMC is homogeneous. The mean size of the audit committee was 4.21, with a range of two to seven members, and the standard deviation was 1.210, which indicates that companies varied in terms of the number of audit committee members. This disparity can be due to the complexity of the business or its size.

The mean of audit committee independence was 0.83, with a range of 0 given the value if the committee totally comprises executive members, and 1 otherwise. The standard deviation was 1.21, which indicates that companies varied in terms of the number of independent audit committee members. Additionally, the mean of external auditor reputation was 0.31, with a range of variables given the value of 1 if the firm is using a Big Four auditor, and 0 otherwise. The standard deviation was 0.38, which indicates that most of the external audit committee members have good experience and a good reputation with external auditors.

The mean of eternal audit change was 0.03, with a range of given value of 1 if the firm had changed their external auditor before one year, and 0 otherwise. The standard deviation was 1.54, which indicates that some of the companies changed external auditor between the previous year and the current year. Furthermore, the total number of shares owned by the firms' directors ranged between 20% and 45%. The mean number of shares owned by the directors of the firm is 0.29, and the standard deviation is 0.07. In addition, total shares owned by the family were in the range of 1%–27%. However, the mean of shares owned by the family is 0.1804, and the standard deviation is 0.06. Earnings management is represented by ASJM. Table 1 shows the earnings management of Malaysian companies. The EM in Malaysian companies ranged between (0.04 - 0.14), with a standard deviation of 0.14, which indicates a decrease in the practice of EM by the companies in the study sample.

4.2. Hypotheses Testing

The four hypotheses in this study were tested by a fixed effects model using STATA. The hypothesis was accepted if the t-value (t) is greater than 1.65 at a significance level (P-value or P) less than 0.1, or if the t-value is greater than 1.96 at a P-value of less than 0.05, or if the t-value is 2.58 with a P-value of less than 0.01. Because the number of observations is minimal, all degrees of significance are evaluated in this study, which is suggested by Hair Jr, Sarstedt, Ringle, & Gudergan (2017). The model is statistically significant with Prob > F accounting for 0.000, and F = 8.41, as shown in Table 2. The R-squared model has a value of 0.392, which means that the variables explain 39.14% of the variation in the AMJM.

Table 2. Results of hypotheses.

H	AMJM	Coeff. (B)	Std. Err.	t	P > t	Result
H	Constant	0.74*	0.16	5.08	0.000	
H1	BDC	0.34***	0.14	2.74	0.001	Accepted
H2	ACC	-0.040**	0.04	-1.98	0.042	Accepted
H3	EAF	-0.27*	0.25	-0.16	0.235	Rejected
H4	OS	-1.62***	0.39	-4.48	0.001	Accepted
H	F (11, 325)	8.41*	0.16	5.08	0.000	Accepted
H	Prob > F (P-value)	0.000	0.14	2.74	0.001	Accepted
H	R-squared	0.392	0.04	-1.98	0.000	Accepted

Note: *, ** and *** indicate significance at the 10%, 5% and 1% levels, respectively.
BDC = Board of Directors Characteristics; ACC = Audit Committee Characteristics; EAF = External Auditor Factors; OS = Ownership Structure.

Table 2 shows that H1 was accepted because the value of the t-test was more than 2.58 and was statistically significant at the level of 0.01, and the P > t value is less than 0.01, which rejects the null hypothesis, indicating that there is no statistically significant effect. From this, it can be concluded that board of directors' characteristics positively affect earnings management in Malaysian manufacturing companies.

H2 was accepted due to the value of the t-test being greater than 1.65 and was statistically significant at the level of 0.05. The P > t value is less than 0.05 with a negative sign, therefore rejecting the null hypothesis, which indicates that there is no statistically significant effect. So, audit committee characteristics negatively affect earnings management in Malaysian manufacturing companies.

H4 was accepted because the value of the t-test was more than 2.58 and was statistically significant at the level of 0.01. The P > t value is less than 0.01 with a negative sign, which rejects the null hypothesis and indicates that there is no statistically significant effect. So, ownership structure negatively affects earnings management in Malaysian manufacturing companies.

Finally, H3 was rejected because all values of the t-test were not statistically significant at the level of 0.05. The P > t value was greater than 0.05, so the null hypothesis was accepted, which indicates that there is no statistically significant effect. So, external auditor factors do not affect earnings management in Malaysian manufacturing companies.

5. DISCUSSION

The findings indicate that board outsiders have a negative effect on Malaysian earnings management, which is also supported by Tulung & Ramdani (2018). However, the characteristics of the board of directors positively affect MMCs' earnings management. Whereas, according to Becher, Tugues, & Greter (2016), more accomplished and experienced board members can better monitor and evaluate aspects of management. Moreover, Saona et al. (2020) found that larger boards have a significant negative impact on earnings management practices. Abuhijleh & Zaid (2022) reported that having a larger proportion of non-executives on the board can improve company performance. In addition, both Epps & Ismail (2009) and Zalata et al. (2022) indicated that the presence of external board members can help manage a company's profits. In addition, audit committee characteristics also positively influence EM in MMCs. The timely publication of financial information by companies is an important component of the quality of financial reporting, which plays an important role in the investment decisions of the users of financial information (Majeed et al., 2022). Thoradeniya et al. (2022) reported that the time of publication of audit reports is the most effective factor in the publication of financial statements. Ghadhab et al. (2019) indicated that the auditor's opinion and the period of company audit during the busy season have a statistically significant relationship. According to Pérez-Cornejo et al. (2019), audit committee size can influence how problems are identified. However, this paper found that the external auditor's factors positively affect earnings management in Malaysian manufacturing companies. As reported by Esztergár-Kiss & Zagabria (2021), an unbiased audit of the manager will be able to avoid problems related to incentives that may arise if the manager is not adequately compensated by the company. Kreilkamp et al. (2020) found that external audits have become an important tool for monitoring commercial activity and possibly increasing the value of a company. In addition, the findings indicate that the ownership structure positively affects EM in MMCs. As mentioned by Eng et al. (2019), a large proportion of individual and family ownership can be associated with lower earnings management. In addition, a positive relationship between managerial ownership and profit management was confirmed in the literature (Cai et al., 2019; Dong et al., 2020).

6. CONCLUSION

The possible benefits of understanding the characteristics of Malaysian earnings management include benefits for investors when making investment decisions, auditors when conducting audits on Malaysian companies, the government when drafting legislation, and regulators when setting standards. This is because, as Nawaiseh (2016) pointed out, it is through these procedures that greater transparency and trustworthiness in published financial accounts may be achieved. However, by highlighting updated corporate governance rules, market value and the competitiveness of institutions will improve. Moreover, this paper provides evidence of the effect of corporate governance on earnings management. Therefore, the results may be helpful for policy makers to take a new approach to the development of corporate governance instructions as well as stakeholders, since improving governance instructions that enhance the quality of earnings and improving the quality of financial reports in general will help them build a comprehensive picture of the firm and improve how future decisions are made.

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