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THE ROLE OF CORPORATE GOVERNANCE MECHANISM, FINANCIAL DISTRESS, AND FIRM PERFORMANCE ON EARNINGS MANAGEMENT WITH AUDIT QUALITY AS A MODERATING VARIABLE

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ABSTRACT

This study analyzes the effects of corporate governance mechanisms, financial distress, and company performance on earnings management, with audit quality as a moderating variable. Earnings management is measured using the EM proxy, while corporate governance is assessed through institutional ownership (INSTOWN) and ownership concentration (OWNCON). Financial distress is represented by the debt-to-equity ratio (DER), company performance by Tobin's Q, and audit quality by the presence of a Big Four auditor (BIG4). Using secondary data from 385 industrial sector companies across ASEAN-5, Australia, New Zealand, and South Korea, this study finds that INSTOWN positively affects earnings management, while OWCON, financial distress, and company performance have negative effects. However, audit quality does not moderate the relationships between institutional ownership, ownership concentration, financial distress, and company performance with earnings management. These findings highlight the need for strong corporate governance, prudent financial management, and high audit quality to mitigate earnings management risks and enhance stakeholder trust.

ABSTRAK

Penelitian ini menganalisis pengaruh corporate governance mechanism, financial distress, dan kinerja perusahaan terhadap manajemen laba, dengan kualitas audit sebagai variabel moderasi. Manajemen laba diukur menggunakan indikator earining

management (EM). Corporate governance mechanism diproksikan melalui kepemilikan institusional (INSTOWN) dan konsentrasi kepemilikan saham (OWNCON). Kesulitan keuangan diproksikan melalui rasio utang terhadap ekuitas (DER), kinerja perusahaan diukur dengan Tobin's Q, dan kualitas audit dilihat dari apakah perusahaan diaudit oleh auditor Big Four (BIG4) atau tidak. Penelitian ini menggunakan data sekunder dari 385 perusahaan sektor industri di negara ASEAN-5, Australia, Selandia Baru, dan Korea Selatan. Hasil penelitian menunjukkan bahwa kepemilikan institusional (INSTOWN) berpengaruh positif terhadap manajemen laba, sementara konsentrasi kepemilikan saham (OWNCON), financial distress, dan kinerja perusahaan berpengaruh negatif. Namun, kualitas audit tidak memperkuat hubungan antara kepemilikan institusional, konsentrasi kepemilikan, kesulitan keuangan, dan kinerja perusahaan dengan manajemen laba. Temuan ini menunjukkan pentingnya tata kelola perusahaan yang kuat, pengelolaan keuangan yang hati-hati, dan kualitas audit yang tinggi untuk mengurangi risiko praktik manajemen laba dan meningkatkan kepercayaan para pemangku kepentingan.

INTRODUCTION

Financial scandals that emerged in the United States in the early 2000s, such as the Enron case in 2001 and the WorldCom case in 2002, have been a major concern over the past few decades. These scandals were caused by conflicts of interest among stakeholders, particularly between principals and agents, as well as weaknesses in corporate control systems that exacerbated information asymmetry. The imperfections in capital market systems and the lack of transparency further worsened these conditions, prompting management to engage in opportunistic behaviors such as financial statement manipulation, debt concealment, and profit inflation (Attia et al., 2023). In Indonesia, a similar scandal involved PT Garuda Indonesia Tbk (GIAA) in 2018. The company reported a profit of USD 239.4 million (IDR 3.84 trillion) in its financial statements, derived from a partnership with PT Mahata Aero Teknologi. However, an investigation by the OJK, IDX, PPK, and BPK revealed that this profit should have been recorded as receivables under a 15-year long-term contract, rather than as other income in the first year of the contract. Further investigation showed that Garuda Indonesia actually incurred a loss of USD 17.5 million in the same year (CNBC Indonesia, 2019).

The aforementioned cases reflect the prevalence of earnings management practices across various companies, wherein management deliberately manipulates accounting policies to meet specific profit targets. These practices undermine the quality of financial statements, leading to discrepancies between accounting information and actual economic conditions (Orazalin, 2020). In response to the rising number of financial scandals, corporate governance effectiveness has become a critical concern. A notable

example of governance failure is the Enron scandal in 2001, which underscored the importance of separating ownership and control in public companies. A robust corporate governance mechanism can help ensure reliable financial information, protect shareholders, and limit opportunistic managerial behavior (Abdou et al., 2021).

Various studies have yielded mixed findings regarding the impact of corporate governance mechanisms on earnings management in both developing and developed countries. In Egypt, (Attia et al., 2023) found a nonlinear relationship between ownership structure and earnings management. Meanwhile, studies in India indicate that institutional ownership can constrain accrual-based earnings management (Potharla et al., 2021). However, in Jordan and Vietnam, institutional ownership has been found ineffective in preventing earnings management (Alhadab et al., 2020; Nguyen & Thi Duong, 2022). In developed economies, most studies suggest that strong corporate governance can mitigate earnings management. In Poland, concentrated ownership and the presence of institutional investors play a role in minimizing real earnings management (Piosik & Genge, 2020). Similar findings have been observed in Norway (Kjærland et al., 2020).

Beyond weak governance, financial distress also contributes to earnings management practices. Under financial strain, management faces pressure that drives them to manipulate financial statements to maintain investor confidence (Li et al., 2020). Financial distress can arise at any time and, if left unaddressed, may lead to corporate bankruptcy. Research has shown that companies in both developing (Viana et al., 2022; Almubarak et al., 2023; Gandhi, 2021) and developed countries (Li et al., 2020; Campa, 2019) tend to engage in earnings management when experiencing financial difficulties.

High profits serve as a key attraction for investors and can increase a company's stock price (Nguyen & Thi Duong, 2022). However, the pressure to achieve high profits may drive management to employ manipulative methods that harm shareholders. Several studies have indicated that companies often inflate profits before conducting an IPO to attract investors (Khuong et al., (2019). This practice can have a detrimental impact on firm performance post-listing. Profit manipulation scandals such as those involving Enron and WorldCom in the United States, Parmalat in Europe, and Carillion and Wirecard in the United Kingdom and Germany demonstrate that unreliable financial reporting can lead to corporate failure (Kharuddin et al., 2021; Kwarbai & Fregene, 2019). Consequently, high-quality audits are necessary to enhance the credibility of financial statements and reduce information asymmetry between management and shareholders (Flayyih et al., 2018).

This study aims to analyze the role of corporate governance mechanisms, financial distress, and firm performance in earnings management while considering the moderating effect of audit quality. This research is particularly important as excessive earnings management practices can threaten financial market integrity and harm stakeholders. By examining how corporate governance mechanisms, financial distress, and firm performance contribute to earnings management, this study provides valuable insights for regulators, investors, and corporations in formulating more effective policies

to enhance financial transparency and accountability.

The novelty of this research lies in its focus on ASEAN-5 countries, Australia, New Zealand, and South Korea as the sample. These nations have experienced rapid economic growth and attract substantial Foreign Direct Investment (FDI), making them highly relevant for studying earnings management practices across diverse economic and cultural contexts (Fox, 2023; Rumbens, 2023). Additionally, this study incorporates audit quality as a moderating variable to examine the role of auditors in mitigating earnings management practices. By doing so, it highlights the importance of audit quality in supporting the sustainability of capital markets in these countries.

RESEARCH METHODOLOGY

This study analyzes companies in the Industrials sector listed on stock exchanges across ASEAN-5 (Indonesia, Singapore, Malaysia, Thailand, and the Philippines), as well as Australia, New Zealand, and South Korea. The research utilizes secondary data obtained from S&P Capital IQ, covering the period from 2019 to 2023. Additionally, country-specific GDP data is sourced from the World Bank website. A purposive sampling method is employed to ensure that the selected companies meet specific criteria relevant to the study. To examine the relationship between the independent and dependent variables, multiple linear regression analysis is applied using STATA 17 under these two models.

Model 1:

$$EMit = \beta0 + \beta1INSTOWNit + \beta2OWNCONit + \beta3DERit + \beta4TOBINSQit + \beta5BIG4it + \beta6SIZEit + \beta7GDPit + \beta8COVID19it + \beta9AGEit + e$$

Model 2:

$$EMit = \beta0 + \beta1INSTOWNit + \beta2OWNCONit + \beta3DERit + \beta4TOBINSQit + \beta5BIG4it + \beta6INSTOWNit\times BIG4it + \beta7OWNCONit\times BIG4it + \beta8DERit\times BIG4it + \beta9TOBINSQit\times BIG4it + \beta10SIZEit + \beta11GDPit + \beta12COVID19it + \beta13AGEit + e$$

Information:

β0	: Constant Coefficient
β1, β2, β3…. β13	: Regression Coefficient
i	: Firm i
t	: Year t
INSTOWN	: Institutional Ownership
OWNCON	: Ownership Concentration
DER	: Debt Equity Ratio
TOBINSQ	: Firm Performance
BIG4	: Audit Quality
INSTOWNxBIG4	: Interaction between Audit Quality and Institutional Ownership
OWNCONxBIG4	: Interaction between Audit Quality and Ownership Concentration
DERxBIG4	: Interaction between Audit Quality and Debt Equity Ratio
TOBINSQxBIG4	: Interaction between Audit Quality and Firm Performance
SIZE	: Firm Size

GDP : Growth of Gross Domestic Product (GDP)
COVID 19 : COVID-19 Pandemic
AGE : Firm Age
EM : Earnings Management
e : Residual Errors

Table 1. Research Variables and the Measurements

No	Variable	Proxy	Formula
1	Earning Management	Discretionary Accruals (Al-Haddad & Whittington, 2019; Nguyen & Thi Duong, 2022)	$\frac{TA_{it}}{A_{avg}} = \alpha + \alpha_1 \frac{1}{A_{avg}} + \beta_1 \frac{\Delta R_{it}}{A_{avg}} + \beta_2 \frac{PPE_{it}}{A_{avg}} + \varepsilon_{it}$ $NA_{it} = \hat{\alpha} + \hat{\alpha}_1 \frac{1}{A_{avg}} + \hat{\beta}_1 \frac{(\Delta R_{it} - \Delta AR_{it})}{A_{avg}} + \hat{\beta}_2 \frac{PPE_{it}}{A_{avg}} + \varepsilon_{it}$ TA : Total accruals PPEt : Gross fixed assets at the end of year t ΔRit : Revenue in year t - revenue in year t-1 ΔARit : Account Receivale in year t - Account Receivale in year t-1. Avg : Total assets at the end of year t-1; $\hat{\alpha}_1, \widehat{\beta_1}, \widehat{\beta_2}$: Firm-specific parameter (estimated using a different model). $DA_{it} = \frac{TA_{it}}{A_{avg}} - NA_{it}$ DA : Discretionary Accruals TA : Total Accruals NA : Non-discretionary Acrruals
2	Institutional Ownership	Institutional Ownership (Alhadab et al., 2020; Piosik & Genge, 2020)	$\frac{\text{Total Institution Sharholding}}{\text{Total Outstanding Share}}$
3	Ownership Concentration	Ownership Concentration (Alhadab et al., 2020; Piosik & Genge, 2020)	Percentage of shares held by shareholders with ≥ 5% ownership
4	Financial Distress	Debt-to-Equity Ratio (DER) (Campa, 2019; Li et al., 2020)	$\frac{\text{Total Debt}}{\text{Total Equity}}$

5	Firm Performance	Tobis'S Q (Nguyen & Thi Duong, 2022; Shao, 2019)	$\frac{\text{Market Capitalization + Total Liabilities}}{\text{Total Assets}}$
6	Audit Quality	Dummy Variable (Orazalin & Akhmetzhanov, 2019; Viana et al., 2022)	1: Big4 0: Non-Big4
7	Firm Size	Natural Logarithm of Asset (Attia et al., 2023)	$\text{SIZE} = \ln\ (\text{Total Aset})$
8	Firm Age	Firm Age (Attia et al., 2023)	Number of years since the company's establishment.
9	GDP Growth	GDP Growth (Aqabna et al., 2023; Viana et al., 2022)	$\text{GDP Growth} = \frac{\text{GDP}_t - \text{GDP}_{t-1}}{\text{GDP}_{t-1}}$
10	COVID-19	Dummy Variable (Yan et al., 2022)	1: Covid Year 0: Non-Covid Year

RESULT AND DISCUSSION

Descriptive Statistics Analysis

Table 2. Descriptive Statistics Analysis

Variable	Obs	Mean	Std. Dev	Min	Max
EM	1.860	8.48	41.10	0,0000998	813
INSTOWN	1.860	10.10	12.275	0	67.96
OWNCON	1.860	45.90	22.43	0	99.981
DER	1.860	0.610	0.809	0.00017	7.676
TOBINSQ	1.860	1.280	1.22	0.261	22.288
BIG4	1.860	0.372	0.483	0	1
SIZE	1.860	10.09	4.10	1.397	20.380
GDP	1.860	0.395	0.72	0.0024	2.086
COVID19	1.860	0.4	0.490	0	1
AGE	1.860	39.28	26.07	1	188

Source: processed using STATA, 2025

This study employs a dataset comprising 1,925 observational samples from 385 companies over a five-year period. The earnings management (EM) variable exhibits a minimum value of 0.0000998 and a maximum of 813, with a mean of 8.48 and a standard deviation of 41.10. This indicates a high degree of variability in earnings management practices among the sampled firms. Institutional ownership (INSTOWN) ranges from 0% to 67.96%, with an average of 10.10% and a standard deviation of 12.28, reflecting a highly diverse level of institutional ownership. Ownership concentration (OWNCON) spans from 0% to 99.98%, with a mean of 45.90% and a standard deviation of 22.43, suggesting significant variations in the concentration of shareholding across firms.

Financial distress, measured by the debt-to-equity ratio (DER), varies between 0.00017 and 7.676, with an average of 0.610 and a standard deviation of 0.809. The relatively low standard deviation indicates that most firms have leverage levels that do not deviate significantly from the mean. Firm performance, assessed using Tobin's Q, ranges from a minimum of 0.26 to a maximum of 22.28, with an average of 1.28 and a standard deviation of 1.22, indicating moderate variation in firm value. The BIG4 variable, a dummy variable representing whether a firm is audited by a Big 4 accounting firm, has an average of 0.37 and a standard deviation of 0.48, suggesting that the majority of firms in the sample are not audited by Big 4 firms.

Firm size (SIZE) ranges from 1.397 to 20.38, with a mean of 10.09 and a standard deviation of 4.10, indicating considerable variation in company size, though most firms fall within the mid-sized category. Economic growth, measured by GDP growth, fluctuates between 0.002 and 2.08, with an average of 0.39 and a standard deviation of 0.72. This suggests significant disparities in economic growth rates across countries during the observation period. The COVID-19 variable, measured as a dummy variable, has an average of 0.4 and a standard deviation of 0.49, indicating that nearly half of the observation period was affected by the COVID-19 pandemic. Lastly, firm age (AGE) ranges from 1 to 188 years, with an average of 39.28 years and a standard deviation of 26.07. The relatively high standard deviation highlights the substantial variation in firm age within the sample.

Selection of Regression Model

Chow Test

Table 3. Chow Test – Model 1

Chow Test	
F(371, 1479)	0.86
Prob > F	0.9654

Source: processed using STATA, 2025

Table 3 presents a Prob > F value of 0.9654, which is not statistically significant. Consequently, in Model 1, the Fixed Effect model does not outperform the Common Effect model. Therefore, the appropriate research model employed for Model 1 is the Common Effect model.

Table 4. Chow Test – Model 2

Chow Test	
F(371, 1475)	0.86
Prob > F	0.9657

Source: processed using STATA, 2025

Table 4 presents a Prob > F value of 0.9949, indicating statistical insignificance. This suggests that the Common Effect model is superior to the Fixed Effect model. Consequently, the research model employed for Model 2 is the Common Effect model.

Lagarange Multiplier Test

The Lagrange Multiplier test is conducted to determine which model performs better between the Common Effect and Random Effect models.

Table 5. Lagrange Multiplier Test – Model 1

Lagrange Multiplier Test	
chibar2(01)	0.00
Prob > chibar2	1.0000

Source: processed using STATA, 2025

Based on Table 5, the Prob>Chi2 value is 1.000, which is greater than 0.05. This indicates that the Common Effect model is superior to the Random Effect model. Accordingly, the research model adopted for Model 1 is the Common Effect model.

Table 6. Lagrange Multiplier Test – Model 2

Lagrange Multiplier Test	
chibar2(01)	0.00
Prob > chibar2	1.0000

Source: processed using STATA, 2025

Based on Table 6, the Prob>Chi2 value is 1.000, which is greater than 0.05. This indicates that the Random Effect model is not superior to the Common Effect model. Therefore, the research model employed for Model 2 is the Common Effect model.

Classical Assumption Test

After conducting a panel data test, the Common Effect model was determined to be the most suitable for both Model 1 and Model 2. This model will be further utilized to estimate the influence of corporate governance, financial distress, and firm performance, with audit quality as a moderating variable, on earnings management in 385 industrial sector companies listed on the ASEAN-5 stock exchanges, as well as those in Australia,

New Zealand, and South Korea.

Normality Test

Table 7. Normality Test

Shapiro-Wilk W Test for Normal Data					
Variable	Obs	W	V	Z	Prob>z
EM	1.860	0.21119	875.748	17.188	0.00000

Source: processed using STATA, 2025

To assess normality in this study, the researcher employed the Shapiro-Wilk test. Table 7 indicates that the data are not normally distributed. However, the non-normal distribution of data is not a concern and can be disregarded, given that the number of observations in this study exceeds 200 samples (Ghozali, 2018).

Multicollinearity Test

Table 8. Multicollinearity Test – Model 1

Variabel	VIF	1/VIF
SIZE	4.80	0.208533
OWNCON	4.41	0.226916
AGE	3.15	0.317201
TOBINSQ	1.94	0.514975
INSTOWN	1.80	0.525672
COVID19	1.80	0.555502
BIG4	1.58	0.632533
DER	1.58	0.633692
GDP	1.41	0.708499
MEAN VIF	2.50	

Source: processed using STATA, 2025

The Variance Inflation Factor (VIF) test was employed to ascertain the presence of multicollinearity issues. Specifically, if the tolerance value (calculated as the reciprocal of the VIF) falls below 0.1 or if the VIF value surpasses 10, such findings signal a substantial multicollinearity problem. All variables in model 1 have VIF values between 1.41 and 4.80, well below the threshold of 10, with a mean VIF of 2.50. Tolerance values range from 0.21 to 0.71, exceeding the 0.1 benchmark, confirming no multicollinearity.

Table 9. Multicollinearity Test – Model 2

Variabel	VIF	1/VIF
BIG4	9.65	0.133866
BIG4XOWNCON	8.28	0.140748
OWNCON	6.23	0.160481
SIZE	5.14	0.194624
BIGXTOBINSQ	4.31	0.232012
AGE	3.24	0.308885
INSTOWN	2.99	0.334368
BIG4XINSTOWN	2.97	0.337046
TOBINSQ	2.29	0.436737
BIG4XDER	2.26	0.442949
DER	2.13	0.469226
COVID-19	1.60	0.547940
GDP	1.83	0.696816
MEAN VIF	4.07	

Source: processed using STATA, 2025

Similarly, in research model 2, tolerance values range from 0.13 to 0.70, while VIF values vary from 1.83 to 9.65, with a mean VIF of 4.07, below the threshold. This confirms the absence of multicollinearity. Thus, independent variables in both models show no significant correlations, ensuring valid regression coefficients for analysis.

Heteroscedasticity Test

Table 10. Heteroscedasticity Test Model 1 – White Test

White Test for Heteroscedasticity	
chibar2(01)	36.84
Prob > chibar2	0.9447

Source: processed using STATA, 2025

Table 11. Heteroscedasticity Test Model 2 – White Test

White Test for Heteroscedasticity	
chibar2(78)	51.89
Prob > chibar2	0.9900

Source: processed using STATA, 2025

This test is conducted at a 5% significance level to detect heteroskedasticity, which occurs when the probability value (Prob) is below 0.05, indicating variance disparities. The results, as shown in Table 10 and Table 11, show a Prob > chibar² value of 0.9447 and 0.9900, respectively. Since those values are significantly above the 0.05 threshold, it suggests that both of the regression model do not have heteroskedasticity issues.

Autocorrelation Test

In this study, the Wooldridge methodology was utilized to assess the presence of autocorrelation. The evaluation was conducted at a 5% significance level, where a p-value greater than 0.05 indicates no evidence of autocorrelation in the model.

Table 12. Autocorrelation Test Model 1

Wooldridge test for autocorrelation	
F(1, 371)	15872
Prob > F	0.0000

Source: processed using STATA, 2025

Table 13. Autocorrelation Test Model 2

Wooldridge test for autocorrelation	
F(1, 441)	14211
Prob > F	0.0000

Source: processed using STATA, 2025

Based on Table 12 and Table 13, the autocorrelation test results for both models indicate a significant value, suggesting the presence of autocorrelation in the model. To address this issue, robust standard errors was applied during the regression analysis of both models.

Model Specification Test

F-Test

Table 14. F-Test and R-squared for Model 1

Common Effects GLS regression		Obs	=	1.860
Wald chi2(13)	29.44	R-squared		
Prob > chi2	0.0005	Within	=	0.0194

	Between	=	0.0814
	Overall	=	0.0442

Source: processed using STATA, 2025

Table 15. F-Test and R-squared for Model 2

Common Effects GLS regression		Obs	=	1.860
Wald chi2(13)	32.54	R-squared		
Prob > chi2	0.0020	Within	=	0.0196
		Between	=	0.0816
		Overall	=	0.0338

Source: processed using STATA, 2025

Referring to Table 14, the probability value (Prob > chi-square) for Model 1 is 0.0005, which indicates statistical significance at the 1% significance level (α = 0.01). This finding suggests that Model 1 meets the feasibility criteria, where all independent variables collectively influence the dependent variable.

In Model 2, the specification test incorporates additional independent variables, specifically the interaction between BIG4 and the primary independent variables. As shown in Table 15, the probability value (Prob > chi-square) is 0.0020, which also demonstrates statistical significance at the 1% significance level (α = 0.01). Therefore, all independent variables in Model 2 simultaneously influence the dependent variable.

Coefficient Determination (R-squared)

Based on Table 14, the estimation results for Model 1 indicate an R-squared between value of 0.0814. This suggests that the independent variables explain approximately 8.14% of the variation in the dependent variable, while the remaining variance is likely attributable to other factors not included in Model 1.

In contrast, the coefficient of determination test for Model 2, as presented in Table 15, yields an R-squared between value of 0.0816. This indicates that the independent variables in Model 2 account for approximately 8.16% of the variation in the dependent variable, whereas the remaining variance is presumably influenced by factors beyond the scope of this study.

Hypothesis Test

Table 16. Hypothesis Test for Model 1

EM	Coefficient	Robust Standard Errors	Z	p-value (one tailed)	p-value (two tailed)
INSTOWN	0.1742858	0.093933	1.86	0.064	0.032**
OWNCON	-0.0686814	0.0324975	-2.11	0.035	0.0175**
DER	-2.176513	0.9983428	-2.18	0.029	0.0145**
TOBINSQ	-0.8801332	0.3251049	-.271	0.007	0.0035***
BIG4	1.887427	2.143633	-0.88	0.379	0.1895
SIZE	0.7489774	0.2235253	3.35	0.001	0.0005***
GDP	0.8218707	1.232934	0.67	0.505	0.2525
COVID19	4.290997	2.151588	1.99	0.046	0.023**
AGE	0.0382605	0.040259	0.95	0.342	0.171
_CONS	0.4500363	3.489333	0.13	0.897	0.4485
***,**,*, significance level at 1%, 5%, dan 10% respectively.					

Source: processed using STATA, 2025

Based on Table 16, the INSTOWN variable has a probability value of 0.032, which is significant at the 5% level, with a coefficient of 0.1742858, indicating a positive direction. This suggests that institutional ownership has a positive and significant impact on earnings management, leading to the rejection of Hypothesis 1 (H1). Subsequently, the OWNCON variable has a probability value of 0.0175, which is also significant at the 5% level, with a coefficient of -0.686814, indicating a negative direction. This result confirms that ownership concentration negatively affects earnings management, thus supporting the acceptance of Hypothesis 2 (H2).

Meanwhile, the DER variable has a probability value of 0.0145, which is significant at the 5% level, with a coefficient of -2.176513, reflecting a negative direction. This finding demonstrates that financial distress has a negative and significant impact on earnings management, leading to the rejection of Hypothesis 3 (H3). Finally, the TOBINSQ variable exhibits a probability value of 0.0035, which is significant at the 1% level, with a coefficient of -0.8801332, indicating a negative direction. Accordingly, firm performance is proven to have a negative effect on earnings management, resulting in the rejection of Hypothesis 4 (H4).

Table 17. Hypothesis Test for Model 2

EM	Coefficient	Robust Standard Error	z	p-value (one tailed)	p-value (two tailed)
INSTOWN	0.1312001	0.1093549	1.20	0.230	0.115
OWNCON	-0.0560673	0.0401974	-1.39	0.163	0.0815*
DER	-1.940491	1.239902	-1.57	0.118	0.059*
TOBINSQ	-0.5888553	0.2123219	-2.77	0.006	0.003***
BIG4	-20.18463	20.80941	0.95	0.342	0.171
BIG4xINSTOWN	-1.388134	0.8468163	0.58	0.562	0.281
BIG4xOWNCON	1.118649	0.4573904	-0.051	0.608	0.304
BIG4Xder	-29.19402	17.73855	-0.38	0.704	0.352
BIG4xTOBINSQ	2.793988	7.485067	-1.16	0.246	0.123
SIZE	-9.842136	1.91091	3.21	0.001	0.0005***
GDP	-29.20411	5.139863	0.61	0.541	0.2705
COVID-19	5.252559	10.27229	1.97	0.049	0.0245**
AGE	0.3004366	0.1570269	1.01	0.056	0.028**
_CONS	145.577	28.84758	-0.03	0.975	0.4875
***,**,*, significance level at 1%, 5%, dan 10% respectively.					

Source: processed using STATA, 2025

Based on Table 17, the effect of INSTOW on EM, moderated by BIG4, has a coefficient of -1.388134 with a probability value of 0.281. Since this result is not statistically significant at the 10% significance level, Hypothesis 5 (H5) is rejected. This implies that audit quality does not moderate the relationship between institutional ownership and earnings management. Secondly, the effect of OWNCON on EM, moderated by BIG4, yields a coefficient of 1.118649 with a probability value of 0.304, which is also not significant at the 10% significance level. Therefore, Hypothesis 6 (H6) is rejected. This indicates that audit quality does not moderate the relationship between ownership concentration and earnings management.

Thirdly, the effect of DER on EM, moderated by BIG4, produces a coefficient of -29.19402 with a probability value of 0.352. As this result lacks statistical significance at the 10% significance level, Hypothesis 7 (H7) is rejected. This suggests that audit quality does not moderate the relationship between the financial distress and earnings management. Lastly, the effect of TOBINSQ on EM, moderated by BIG4, presents a coefficient of 2.793988 with a value of 0.123. Since this result is also not significant at the 10% significance level, Hypothesis 8 (H8) is rejected. This confirms that audit quality does

not moderate the relationship between firm performance and earnings management.

Discussion

Institutional Ownership Positively Influence Earning Management

This study demonstrates that institutional ownership has a positive and significant impact on earnings management practices. The findings indicate that the presence of institutional investors does not effectively mitigate earnings management within firms. This result aligns with the passive hands-off hypothesis, which suggests that institutional investors tend to refrain from actively monitoring managerial performance. Instead, their primary focus is on profit maximization, both in the short and long term (Piosik & Genge, 2020).

Furthermore, these findings are consistent with the study by Attia et al. (2023), which reveals a positive relationship between institutional ownership and earnings management in Egypt. Attia et al. (2023) argue that the lack of significant influence in curbing earnings management in Egypt may stem from an unfavorable regulatory environment, which restricts institutional investors from effectively monitoring corporate management.

However, these results contradict the findings of Potharla et al. (2021), who concluded that institutional ownership could reduce earnings management through more stringent monitoring mechanisms. Thus, this discrepancy suggests that the effectiveness of institutional ownership in limiting earnings management largely depends on the institutional and regulatory context of each country.

Ownership Concentration Negatively Influence Earning Management

This study finds that ownership concentration has a negative impact on earnings management. In other words, the higher the ownership concentration in a company, the lower the likelihood of management engaging in earnings management practices. This can be attributed to stricter oversight by majority shareholders, who have a stronger incentive to ensure financial transparency and accuracy. Moreover, shareholders with significant ownership stakes tend to adopt a long-term perspective on the company's performance, prioritizing conservative accounting practices over earnings manipulation for short-term gains.

These findings align with those of Triyonowati et al. (2022) dan Syarifuddin (2021), who state that ownership concentration provides blockholders with the incentives and authority to monitor firms, leading to improved decision quality and, consequently, reducing opportunities for earnings management.

Financial Distress Negatively Influence Earning Management

The findings of this research indicate that financial distress has a negative impact on earnings management practices. This suggests that the sampled companies, when experiencing financial distress, surprisingly do not engage in earnings management to obscure their actual financial condition.

Financial distress reflects a failure of management to navigate financial difficulties arising from poor investment decisions or other severe issues that may ultimately lead to bankruptcy. In such circumstances, there is a high likelihood that management will

engage in earnings management to present financial statements that appear favorable from the perspective of the market and financial entities (Almubarak et al., 2023).

However, the findings of this study contradict previous research (Campa, 2019; Gandhi, 2021; Li et al., 2020; Viana et al., 2022), which suggests that companies experiencing financial distress or financial difficulties tend to engage in earnings management. This may be due to increased scrutiny from creditors and regulators when a company is in financial distress, which restricts management's ability to engage in earnings manipulation (Apriliana et al., 2024). Additionally, Ghazali et al. (2015) explain that managers are more likely to engage in earnings management when the company is in a stable condition. Conversely, during periods of financial distress, they tend to discontinue such practices, either because they have already engaged in extensive manipulation in the past or because they no longer perceive any benefits from doing so.

Firm Performance Negatively Influence Earning Management

These findings indicate that well-performing companies are less likely to engage in earnings manipulation because they do not need to artificially inflate their financial statements. Conversely, if these companies had shown weaker financial performance, they might have been more inclined to engage in earnings management to mask poor results.

This aligns with agency theory, which highlights the inherent conflict of interest between management and shareholders. Managers, driven by incentives such as performance-based compensation, may have an incentive to manipulate earnings to meet short-term targets, even at the expense of long-term shareholder value. However, in well-performing companies, the pressure to engage in such practices is reduced, as strong financial results naturally align with shareholder expectations.

This finding is supported by the research of Khairiyahtussolihah & Herawaty (2020), which suggest that poor corporate performance incentivizes firms to engage in real earnings management to enhance profitability and bolster investor confidence, and vice versa. Furthermore, (Al-Shahadah et al., 2023) elaborate that managers may engage in income-decreasing earnings management when a company generates profits exceeding its target, aiming to minimize tax obligations, with the reverse scenario also holding true.

Audit Quality Does Not Moderate the Influence of Institutional Ownership, Ownership Concentration, Financial Distress, and Firm Performance on Earning Management

The findings of this research indicate that audit quality does not moderate the influence of all independent variables on earnings management. These findings align with the study conducted by (Siala & Jarboui, 2019), which states that the presence of external auditors in companies, regardless of whether they operate at a high or low level, does not influence their engagement in earnings management practices. Furthermore, Astuti et al. (2021) emphasize that earnings management actions undertaken beyond the auditor's reach may prevent auditors from detecting such practices.

Similarly, a study by Almarayeh et al. (2020) examining the impact of audit quality

on earnings management in Jordan found that the insignificant effect of audit quality on earnings management may be attributed to several factors, including concentrated ownership structures, weak investor protection, a small and inefficient stock market, strong personal relationships between auditors and clients, low demand for high-quality audits, and a general lack of appreciation for the importance of auditing. Additionally, cultural factors also influence perceptions of auditor independence, and the way auditors perform their duties.

CONCLUSION

This study aims to analyze the influence of corporate governance, financial distress, and firm performance on earnings management, with audit quality as a moderating variable. The data was collected using purposive sampling, comprising 1.920 observations from 372 companies in the industrials sector across ASEAN-5 (Indonesia, Singapore, Malaysia, Thailand, and the Philippines), as well as Australia, New Zealand, and South Korea, over the period 2019–2023.

The findings indicate that institutional ownership has a positive effect on earnings management, while ownership concentration, financial distress, and firm performance exhibit a negative influence. However, audit quality does not moderate the relationship between the independent variables and earnings management. These findings have significant implications for corporate governance practices. First, the results underscore that concentrated share ownership serves as an effective mechanism in mitigating earnings management, highlighting the critical role of majority shareholders in corporate oversight. Second, companies are encouraged to adopt policies that strengthen the role of key shareholders in governance mechanisms, such as promoting larger share ownership by internal parties and enhancing oversight systems through stricter policies, procedures, and control mechanisms.

Despite offering valuable insights, this study has certain limitations, particularly concerning potential autocorrelation in the data. To address this issue, robust standard errors were applied in the regression analysis to enhance the reliability of the findings. Future research is recommended to extend the observation period to increase the sample size, thereby improving the representativeness of the results. Additionally, utilizing alternative proxies for the independent variables could provide a more comprehensive perspective on the factors influencing earnings management. Furthermore, future studies could consider sampling from different industry sectors to explore whether the relationships among the studied variables remain consistent or vary across industries.

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