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Hide-And-Seek in Earnings Management-Financial Performance Nexus: The Influence of Corporate Governance Mechanisms

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Abstract. *This research aims to explore the moderating effects of corporate governance mechanisms on the relationship between earnings management and financial performance. This investigation is conducted considering the background of agency, legitimacy, and upper echelons theories. Using a sample of international non-financial companies, with data available on Thomson Reuters Eikon for the 2018-2023 period, this research employs multiple regression analysis. The discretionary accruals variable is a proxy for earnings management, return on equity measures financial performance, while company activity is reflected by various control variables. Corporate governance mechanisms referring to board independence, board diversity, executive committee diversity, board activity, and CSR strategy are included to identify whether they may significantly interact on the earnings management-financial performance nexus. The exploratory analysis of data (descriptive statistics and correlation analysis) is complemented by a panel random-effects regression modelling performed in STATA18 software, to test the research hypotheses. The main findings indicate strong evidence that financial performance is positively and significantly influenced by earnings management practices. Mixed impacts are found for the corporate governance mechanisms on financial performance. Muchmore, findings emphasize that board independence and executive diversity significantly moderates the impact of discretionary actuals generating an increasing in financial performance, while board diversity and board activity interact with discretionary accrual by decreasing the financial performance. These outcomes imply that corporate governance mechanisms may influence management decisions of using earnings manipulation to financial performance's window-dressing.*

Keywords: financial performance, earnings management, corporate governance mechanisms, moderating effects.

Introduction

Corporate governance is essential for promoting efficiency and transparency, safeguarding the wealth of minority shareholders, making sure that all shareholders are treated fairly, and making it easier to disclose all relevant information in a timely and accurate manner. Over the past few decades, corporate scandals have highlighted how crucial it is to set up strong corporate governance systems to control managerial behavior (Nguyen et al., 2024; Shah et al., 2024).

Earnings management involves accounting techniques that make the image of the company appear better than it actually is to its owners, shareholders, and creditors. Therefore, the company's performance and overall financial reputation are impacted by earnings management, which also affects the quality of financial reporting (Chen et al., 2024). Because managers and shareholders have different access to information, earnings management may be perceived as a case of the principal-agent dilemma (El Diri et al., 2020), under the information asymmetry perspective.

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In this paper, a cross-sectional study on the relationship between earnings management and financial performance is conducted, using a sample of international non-financial companies. Random-effects regression modelling is performed for the time frame between 2018 and 2023. The research novelty is outlined through corporate governance mechanisms analyzed as moderating variables. The theoretical background is covered by the agency, legitimacy, and upper echelons theories. Results provide a strong understanding of how the significant impact of earnings management on financial performance may be impaired by corporate governance mechanisms. This study adds to the body of knowledge in the literature and highlights a challenging topic given the constantly changing environment of corporate governance mechanisms from both companies and standard setters' perspectives, with impact on the decision-making process.

The remainder of the paper is organized as follows. Literature review and research hypotheses section covers a summary of scientific papers addressing earning management, financial performance, and corporate governance. Research methodology section explains data collection and processing, complemented by information for statistical analysis and econometric estimation. Results and discussions present the main findings and debate them by reference to prior literature. Conclusion section summarizes the findings, limitations, and perspectives for future research.

Literature review and research hypotheses

Corporate governance is responsible for overseeing, managing, and advising senior management in addition to leading company's operations and monitoring its performance (Attia et al., 2024). Corporate governance mechanisms are designed and incorporated into company's strategy as an orderly procedure that identifies and analyses both company's and stakeholders' objectives. Thus, effective corporate governance practices boost investor confidence drawing in both national and foreign capital and reduce the likelihood of company's failure while simultaneously protecting minority shareholders (Shah et al., 2024). The literature has long documented that managers typically tend to use the latitude granted by accounting standards to prepare the financial statements by smoothing out or inflating earnings for various reasons (Boachie & Mensah, 2022), hence, affect the financial performance.

Even with extensive research on corporate governance and earnings management (Attia et al., 2024; Mensah & Onumah, 2022; Zalata et al., 2021), there is still a substantial need to better understand corporate governance mechanisms, especially in light of noteworthy accounting scandals such as Enron, WorldCom, or Parmalat. These high-profile corporate unfavorable events in developed markets have brought additional academic attention at global scale, raising concerns about the effectiveness of management accounting, auditing, and corporate governance procedures. Challenging questions about the monitoring role of corporate governance in relation to the accuracy and transparency of financial reports are indicated as gaps in earnings management - financial performance research (Nguyen et al., 2024; Shah et al., 2024).

The approach of this study involves a mixed theoretical background, considering the frameworks of agency, legitimacy, and upper echelons theories. This is proposed to explain the way managers may influence the perceptions of stakeholders about a possible biased use of accounting practices in reporting financial performance (Chakroun & Ben Amar, 2021). According to *agency theory*, the primary benefit of best corporate governance mechanisms is the ability to manage and mitigate the agency problem while generating value for shareholders. This theory looks at how managers (agents) carry out their agreement with the shareholders (principals). Given the fact that managers may adopt opportunistic behaviors, working only for their own interests, internal corporate governance and control are established to enforce management to provide a clear financial information and safeguard the interests of shareholders (Shah et al., 2024; Boachie & Mensah, 2022). *Legitimacy theory* is outlined by Attia et al. (2024) and Mensah and Onumah (2022), referring to a specific corporate governance mechanism, gender diversity. The authors emphasize that companies may respond to pressure from the labor market and institutional investors and gain greater legitimacy and competitive advantages by appointing more gender-diverse boards. The fundamental tenet of the *upper echelons' theory* is that executives base their decisions on how they personally interpret the circumstances they face. Therefore, it may be considered that strategic decisions of the company and organizational results are greatly influenced by management thoughts, values, and perceptions (Bouaziz et al., 2019).

Earnings management is considered a challenging topic and is frequently approached in the prior literature on the relationship with financial performance (Boachie & Mensah, 2022). For instance, Chakroun and Ben Amar (2021) emphasize that earnings management resumes several opportunistic practices that may negatively impact financial performance. In addition, Chen et al. (2024) outline that top executives may manipulate earnings in order to improve corporate performance and accomplish organizational and personal purposes, as well as mislead stakeholders and shareholders.

The landscape of scientific literature is complemented by the analysis of earnings management in relation to corporate governance mechanisms. Previous studies highlight that board independence (Xi & Xiao, 2022), gender diversity (Attia et al., 2024; Zalata et al., 2021), corporate board and audit committee (Feng & Huang, 2020; Ghosh et al., 2010), executive management characteristics (Chen et al., 2024), or CSR practices and disclosure (Chakroun & Ben Amar, 2021) may impact the earnings management.

Thus, independent directors could contribute to improving the quality and overall activity of the board, as well as company's performance, hence, increasing board effectiveness and reducing agency costs. Likewise, a higher percentage of independent board members may limit the authority of the CEO (Shah et al., 2024; Gull et al., 2018).

Gull et al. (2018) emphasize that women may be less tolerant of opportunistic behavior in the context of decision-making processes and risk taking. Zalata et al. (2021) highlight that the nomination of female directors is expected to increase board independence and shareholder value. The existence of gender differences is generally acknowledged and, in light of this, the theoretical background (agency and legitimacy theories) offers strong evidence that women may possess superior skills to men, highlighting their behavioral, organizational, ethical and social roles. These statements are complemented by Mensah and Onumah (2022), who find that the role played by female directors significantly influences the nexus between earnings management and corporate performance.

Other corporate governance mechanisms that could have an impact on financial performance, along with earnings management are related to CEO characteristics and board size. Chen et al. (2024) outline that executive management characteristics such as gender, tenure, and overconfidence are positively correlated with senior executives' involvement in earnings management. Shah et al. (2024) highlight that effective earnings management is carried out by larger boards.

Based on this concise review of previous studies, the objective of this research is responded by including in earnings management – financial performance relationship analysis corporate governance mechanisms related to board independence, board diversity, executive committee diversity, board activity, and CSR strategy. Consequently, the research hypotheses are stated below.

RH1. *Earnings management is positively associated with financial performance*.

RH2. *Corporate governance mechanisms are significantly associated with financial performance, in the presence of earnings management*.

RH3. *The relationship between earnings management and financial performance is significantly moderated by corporate governance mechanisms.*

Research methodology

This section provides details on the econometric analysis conducted to examine the influence exerted by earnings management on financial performance, complemented by the moderating effects of several corporate governance mechanisms. Control variables are considered to reflect an in-depth approach to company activities.

Data and sample selection

Statistical analysis and econometric estimations are performed using *STATA18*. Secondary data at company-level is collected from Thomson Reuters Eikon database and initially processed with *Microsoft Excel*. Information for world-wide companies is collected for the time frame covering the period from 2018 to 2023, based on data availability. In line with prior literature (Attia et al., 2024; Nguyen et al., 2024; Chakroun & Ben Amar, 2021; Feng & Huang, 2020), companies in the financial sector are not included in the sample due to their specific regulations and particularities of accounting methods with varying effects on corporate governance mechanisms.

The initial dataset consisted of 48997 observations for 11811 unique companies from all industries. Observations with missing data, as well as companies activating in financial sector (16439) were eliminated. Next, extreme values (650) for discretionary accruals (DA), resulting in a final sample of 31908 observations for 8428 unique companies. Consequently, the final sample makes it possible to create a panel dataset, particularly when it comes to controlling for unobserved heterogeneity, in line with Nguyen et al. (2024) and Boachie and Mensah (2022). The characteristics of sample by country (the most represented ones), year and industry are tabulated in Appendix 1.

Research variables

Table 1 summarizes all informative data related to variables considered in the analysis and previously used by researchers (Attia et al., 2024; Shah et al., 2024; Boachie & Mensah, 2022; Chakroun & Ben Amar, 2021; Zalata et al., 2021). Financial performance is measured with return on equity (ROE), an accounting-based ratio.

The primary independent variable is discretionary accruals (DA), as a proxy for earnings management, estimated based on the Kothari et al. (2005) model exposed below:

$$DA_{it}/A_{it-1} = \alpha_0 + \alpha_1(1/A_{it-1}) + \alpha_2[(\Delta REV_{it} - \Delta TR_{it})/A_{it-1}] + \alpha_3(PPE_{it}/A_{it-1}) + \alpha_4 ROA_{it}/A_{it-1} + \varepsilon_{it},$$

where DA_{it} is discretionary accruals, as the difference between net income and operating cash flow. ΔREV_{it} is the change in revenues, while ΔTR_{it} measures the change in receivables. PPE_{it} is the net value of property, plant and equipment for company i in year t. ROA_{it} is computed as net income (after taxes) divided by total assets, and ε_{it} is the error term. In this model all variables are scaled by the lagged value of total assets (A_{it-1}) to avoid heteroskedasticity in the error term. The residuals are then analyzed as a proxy for earnings management, the extreme values being dropped because they may represent a methodological concern. Similar with Boachie and Mensah (2022), the signed values of discretionary accruals, considered as independent variable, are used in the analysis.

Table 1. Variables measurement

Variable	Name	Measurement
Dependent variable		
ROE	Return on Equity	Net income / Total equity
Independent and moderating variables		
DA	Discretionary Accruals	Estimated according to Kothari et al. (2005) model
BOARD_INDEPENDENCE	Board Independence	Percentage of independent board members as reported by the company
BOARD_DIVERSITY	Board Diversity	Percentage of women on the board
EXEC_DIVERSITY	Executive Diversity	Percentage of women executive members
BOARD_ACTIVITY	Board Activity	Total number of board meetings during the year
CSR_STRATEGY	CSR Strategy Score	Company disclosure related to integration of economic, social, and environmental dimensions in decision-making processes
Control variables		
LEV	Financial Leverage	Total liabilities / Total assets
SIZE	Company Size	Total assets (natural logarithm)
LOSS	Profit or Loss	Dummy variable: 1 if company reported positive net income and 0 otherwise

Source: Authors' own research based on the data collected from Thomson Reuters Eikon.

The variables illustrating corporate governance mechanisms such as board independence, board and executive diversity, and board activity (number of board meetings) are included as potential moderators of the relationship between earnings management and financial performance. These mechanisms are complemented with information disclosed by companies related to the integration of CSR practices into the decision-making process (CSR_STRATEGY).

This study also includes several company-level indicators as control variables. For example, leverage and loss are proxy for financial characteristics, in accordance with Gull et al. (2018). Similar to Attia et al. (2024), Shah et al. (2024), and Gull et al. (2018), this study uses dummies to account for the potential effects of time, industry, and country given that the level of earnings management may vary over time, by industry and by country.

Regression estimation

Before testing the three research hypotheses, the Hausman specification test is performed to decide whether fixed or random effects are appropriate for the data. According to the results, the random effects estimations are suitable to control for the variability and differences between the companies in the large international sample included in the research. Therefore, three empirical models are estimated. Model 1 includes financial performance (ROE), earnings management (DA), and all control variables as follows:

$ROE_{it} = \beta_0 + \beta_1 DA_{it} + \beta_2 LEV_{it} + \beta_3 SIZE_{it} + \beta_4 LOSS_{it} + \mu_{it} + \varepsilon_{it}$,

where i is the company, t is the time frame, and β_0 is the constant, μ_{it} reflects the fixed effects for year, industry, and country, and the error term is ε_{it}.

Next, Model 2 is extended by including the influence of corporate governance mechanisms:

$$ROE_{it} = \beta_0 + \beta_1 DA_{it} + \beta_2 LEV_{it} + \beta_3 SIZE_{it} + \beta_4 LOSS_{it} + \beta_5 BOARD\_INDEPENDENCE_{it} + \beta_6 BOARD\_DIVERSITY_{it} + \beta_7 EXEC\_DIVERSITY_{it} + \beta_8 BOARD\_ACTIVITY_{it} + \beta_9 CSR\_STRATEGY_{it} + \mu_{it} + \varepsilon_{it}.$$

Finally, the moderating effects of corporate governance mechanisms are exposed in Model 3, estimated below:

$$ROE_{it} = \beta_0 + \beta_1 DA_{it} + \beta_2 LEV_{it} + \beta_3 SIZE_{it} + \beta_4 LOSS_{it} + \beta_5 BOARD\_INDEPENDENCE_{it} + \beta_6 BOARD\_DIVERSITY_{it} + \beta_7 EXEC\_DIVERSITY_{it} + \beta_8 BOARD\_ACTIVITY_{it} + \beta_9 CSR\_STRATEGY_{it} + \beta_{10} DA_{it}{*}BOARD\_INDEPENDENCE_{it} + \beta_{11} DA{*}BOARD\_DIVERSITY_{it} + \beta_{12} DA{*}EXEC\_DIVERSITY_{it} + \beta_{13} DA{*}BOARD\_ACTIVITY_{it} + \beta_{14} DA{*}CSR\_STRATEGY_{it} + \mu_{it} + \varepsilon_{it}.$$

Results and discussions

Descriptive statistics and correlation matrix

Table 2 presents the summary of descriptive statistics for all company-year observations included in the final sample. The mean value of ROE (0.5540) shows that the analyzed companies are profitable and financially efficient. Withal, the mean value of earnings management measured by discretionary accruals (-0.0031) suggests that companies tend to manage earnings downward. These findings are in line with Chakroun and Ben Amar (2021) and contrary to Nguyen et al. (2024), who find a positive average value for discretionary accruals, highlighting that there is no proof of systematic manipulation of earnings to increase or decrease revenue. The mean values of corporate governance mechanisms indicate that companies have 61.651% independent board members, 22.8523% women on board, and 16.9485% women on executive committees. The average CSR strategy score (41.7697) suggests that companies included in the sample strive for a strong commitment to corporate social responsibility.

Table 2. Descriptive statistics

Variable	Mean	Std. Dev.	Min	Max
ROE	0.5540	0.4239	-3.0798	2.1414
DA	-0.0031	0.0938	-0.4204	0.3192
BOARD_INDEPENDENCE	61.6510	22.9201	0	100
BOARD_DIVERSITY	22.8523	14.1551	0	100
EXEC_DIVERSITY	16.9485	16.0566	0	100
BOARD_ACTIVITY	9.0052	4.6163	3	32
CSR_STRATEGY	41.7697	32.3921	0	99.9762
LEV	0.5508	0.2918	-0.1228	16.7379
SIZE	21.3828	1.7754	14.4022	28.7950
LOSS	0.7774	0.4160	0	1

Notes. Variables are defined in Table 1. The final sample consists in 31908 company-year observations.

Source: Authors' own research.

Table 3 reports Pearson correlation matrix to assess whether the variables are strongly associated. According to the results, almost all corporate governance mechanisms and company characteristics are statistically significant correlated with the financial performance measured with return of equity (ROE), providing support for further econometric analysis. Regarding correlation diagnostics, Boachie and Mensah (2022) provide similar evidence for ROA as measure for financial performance, justifying the choice of independent variables included in empirical econometric models.

Table 3. Correlation matrix

Variable	(1)	(2)	(3)	(4)	(5)
1. ROE	1.0000				
2. DA	0.2178**	1.0000			
3. BOARD_INDEPENDENCE	-0.0605**	-0.0894**	1.0000		
4. BOARD_DIVERSITY	0.0127**	-0.0034	0.2821**	1.0000	
5. EXEC_DIVERSITY	0.0076	0.0298**	0.0629**	0.3153**	1.0000
6. BOARD_ACTIVITY	-0.0576**	-0.0616**	-0.0154**	0.0484**	0.0286**
7. CSR_STRATEGY	0.1336**	0.0012	-0.0334**	0.1554**	0.0816**
8. LEV	0.0021	-0.0597**	0.0502**	0.0757**	0.0126**
9. SIZE	0.1456**	-0.0236**	-0.0030	0.0626**	-0.0136**
10. LOSS	0.4261**	0.3269**	-0.1262**	0.0085	0.0034
Variable					
6. BOARD_ACTIVITY	1.0000				
7. CSR_STRATEGY	0.0663**	1.0000			
8. LEV	0.0630**	0.0883**	1.0000		
9. SIZE	0.0535**	0.5179**	0.2280**	1.0000	
10. LOSS	-0.0771**	0.2101**	-0.0830**	0.2341**	

Notes. Variables are defined in Table 1. The final sample consists in 31908 company-year observations. ** p<0.05.

Source: Authors' own research.

ROE has significantly positive correlations with BOARD_DIVERSITY and CSR_STRATEGY, demonstrating that companies with a higher percentage of women on board, as well as companies that include social, environmental, and economic dimensions into their daily decision-making processes, tend to have better financial performance. However, findings show a negative correlation with BOARD_INDEPENDENCE and BOARD_ACTIVITY, indicating that a higher percentage of independent members, as well as a higher number of board meetings may be associated with a decrease in financial performance. These results are in line with Bojan et al. (2024), suggesting that financial performance may decrease along with the growth of the number of independent board members and the number of board meetings.

Chakroun and Ben Amar (2021) draw attention to multicollinearity issues, highlighting that the Pearson correlation coefficient should not be higher than 0.75. The values reported in Table 3 are lower than 0.50, the majority being even smaller than 0.20, demonstrating that multicollinearity is not a concern in this study.

Multilevel regression analysis

Table 4 summarizes the results of the econometric modelling. The three research hypotheses are tested based on panel regression with random intercept modelling using a multilevel structure dataset. In line with prior literature (Nguyen et al., 2024; Boachie & Mensah, 2022; Feng & Huang, 2020), fixed-effects for year, industry, and country are considered.

Model 1 is tested as a control model and shows strong and significant influences exerted by both independent and control variables on financial performance. Discretionary accruals (DA) have a positive and statistically significant impact ($\beta=0.5459$, $p<0.01$) on return on equity (ROE), indicating that financial performance of companies strongly engaged in earnings management techniques has an upward trend. Therefore, these findings validate the first research hypothesis (RH1. *Earnings management is positively associated with financial performance*).

Muchmore, all control variables (financial leverage - LEV, company size - SIZE, and profit or loss reported by companies – LOSS) are positively associated with financial performance measured with ROE at 0.01 level. These findings are in line with Akter et al. (2024), Bojan et al. (2024), and Zalata et al. (2021), and contrary to Boachie and Mensah (2022) for financial leverage.

Table 4. Multilevel regression results

Variable	Model 1	Model 2	Model 3
Dependent variable: ROE	β (t-stat)	β (t-stat)	β (t-stat)
DA	0.5459*** (20.2825)	0.5431*** (20.1866)	0.3007*** (3.2271)
LEV	0.0478*** (5.0728)	0.0502*** (5.3181)	0.0500*** (5.2974)
SIZE	0.0194*** (10.0875)	0.0188*** (8.5541)	0.0187*** (8.4859)
LOSS	0.3374*** (54.0633)	0.3340*** (53.2988)	0.3333*** (53.1625)
BOARD_INDEPENDENCE		-0.0001 (-0.7207)	-0.0001 (-0.7172)
BOARD_DIVERSITY		0.0002 (1.0209)	0.0002 (1.0615)
EXEC_DIVERSITY		0.0002 (1.1170)	0.0002 (1.1103)
BOARD_ACTIVITY		-0.0034*** (-5.7753)	-0.0032*** (-5.3107)
CSR_STRATEGY		0.0001 (0.8884)	0.0001 (0.8842)
DA*BOARD_INDEPENDENCE			0.0025** (2.1702)
DA*BOARD_DIVERSITY			-0.0039** (-2.0846)
DA*EXEC_DIVERSITY			-0.0024 (-1.5373)
DA*BOARD_ACTIVITY			0.0199*** (4.2124)
DA*CSR_STRATEGY			0.0007 (0.8554)
Constant	-0.7986*** (-2.8113)	-0.7467*** (-2.6225)	-0.7464*** (-2.6219)
Observations	31908	31908	31908
R-squared	0.2007	0.2019	0.2024
VIF average	1.14	1.21	3.42
Year fixed-effects	Yes	Yes	Yes
Industry fixed-effects	Yes	Yes	Yes
Country fixed-effects	Yes	Yes	Yes

Notes. Variables are defined in Table 1. *** p<0.01, ** p<0.05, * p<0.1.

Source: Authors' own research.

Model 2 partially validates RH2. *Corporate governance mechanisms are significantly associated with financial performance, in the presence of earnings management*. Thus, negative, but not significant influence is found for board independence, while for board and executive committee diversity and CSR strategy the influence is positive and not significant. Board activity is the only corporate governance mechanism that significantly impacts financial performance, indicating that a higher number of board meetings may generate a decrease in financial performance. The impact of discretionary accruals ($\beta=0.5431$, $p<0.01$) remains similar with Model 1. These results are consistent with agency theory perspective (Boachie & Mensah, 2022; Chakroun & Ben Amar, 2021), that the use of formal corporate governance mechanisms may restrain the managers' opportunistic behavior. Consequently, public trust, company reputation, and the accuracy of information disclosed are all affected, particularly when asymmetric information and agency issues are present. Hence, it may be considered that the ascending trend in financial performance is influenced by managers, as a result of using impression management techniques.

Furthermore, the third research hypothesis (RH3. *The relationship between earnings management and financial performance is significantly moderated by corporate governance mechanisms)* is also confirmed, by Model 3, but with a lower positive influence ($\beta=0.3007$, $p<0.01$), showing that the interaction between earnings management (DA) practices and corporate governance mechanisms used by companies generates a smaller increase in ROE ratio, compared to previous two models.

Muchmore, findings of Model 2 and Model 3 draw attention to the nexus between corporate governance mechanisms and financial performance, with a negative influence of BOARD_ACTIVITY ($\beta=-0.0034$ for Model 2 and $\beta=-0.0032$ for Model 3), that remains significant at 1% level, illustrating that the increase in the number of meetings may generate a decrease in company's financial performance. These findings are contrary to Gull et al. (2018).

Muchmore, results of Model 3 emphasize that a higher percentage of independent board members ($\beta=0.0025$, $p<0.05$) and a higher number of board meetings ($\beta=0.0199$, $p<0.01$) moderated by earnings management practices may increase company's performance, while a more diverse board interacting with earnings management practices has a negative impact ($\beta=-0.0039$, $p<0.05$) on financial performance. The economic approach of these results highlights that in companies with a higher number of women on board and where a higher number of board meetings are organized, the use of earnings management practices may generate a decrease in financial performance. Characteristics related to executive committee diversity have a positive but not statistically significant impact on financial performance, contrary to Akter et al. (2024), and Bojan et al. (2024). This approach is in line with Boachie and Mensah (2022), who emphasize that the financial performance-earnings management relationship is positively influenced by corporate governance quality.

Conclusion

The nexus between earnings management and financial performance is a long-debated topic in the scientific literature (Boachie & Mensah, 2022; Chakroun & Ben Amar, 2021), but the relevance and novelty of the subject increase once corporate governance mechanisms are considered in the analysis as independent or moderating variables (Attia et al., 2024; Chen et al., 2024; Mensah & Onumah, 2022; Zalata et al., 2021).

In this study, the baseline research hypothesis (RH1) is validated as a result of the positive and statistically significant influence exerted by earnings management on financial performance. For the control variables (financial leverage, size, and loss), it is demonstrated that their effect on financial performance is positive and significant in all three regression models. Then, the moderating effects of corporate governance mechanisms emphasize a higher financial performance when earnings management practices are applied in companies with a higher number of independent board members and a higher number of board meetings within a year. On the contrary, a lower financial performance is observed in companies with a higher percentage of women on board of directors (also significant) and a higher percentage of women on executive levels (but not significant).

The summary of the findings could highlight several key practical implications. The managerial influence on corporate practices may be outlined because earnings management has serious ethical implications, even if his techniques are not inherently unlawful or harmful to stakeholders. Therefore, the ethical and professional duty of managers to protect the quality of earnings reporting should be underlined. This insight highlights how critical it is to increase managers' knowledge and understanding of moral principles, legal requirements, and professional ethics. Hence, ethical behavior will assist them in establishing appropriate values and ethical standards, reduce the risk of engaging in earnings management, improve their ability to handle pressures and difficulties, and lessen their propensity to manipulate earnings.

Muchmore, empirical evidence shows that by including a higher percentage of women on boards for a company involved in earnings management will result in decreasing the financial performance and affecting the connections with stakeholders.

This research offers a new perspective on earnings management practices and financial performance by examining the moderating effects of corporate governance mechanisms and controlling for company characteristics, in line with previous research (Attia et al., 2024; Nguyen et al., 2024; Boachie & Mensah, 2022; Feng & Huang, 2020). Muchmore, it may represent an effective resource for regulators and shareholders, who could identify that limiting opportunistic earnings management practices may be achieved by adopting best corporate governance practices.

This study contributes to the literature by extending the scarce literature on the impact of discretionary accruals as earnings management practices on financial performance, by applying agency theory, hence including multiple corporate governance mechanisms as moderating variables and discussing their specificity.

However, some limitations are recognized, which in turn suggest prospects for future research. First, the limitations reflect a lack of comparison analysis given the extended time frame analyzed. Starting from this limitation, future research may focus on performing comparative analyses between crisis and non-crisis time considering the pandemic period, as well as across different industries, or for developed and developing economies. Second, another limitation could be represented by a single accounting-base variable (ROE) used to measure financial performance. Due to this limitation, future studies may include variables such as return on assets or Tobin's Q to reflect financial performance. Third, limitations are identified in terms of country-level variables. For instance, an extended approach considering variables such as rule of law, control of corruption, or regulatory frameworks may increase the relevance of the associations between financial performance, earnings management, and corporate governance. Last, but not least, another limitation resides in using signed values for discretionary accruals. Future research may consider distinct subsamples for income -decreasing earnings management (negative discretionary accruals) and income-increasing earnings management (positive discretionary accruals).

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Appendix

Appendix 1. Multilevel regression results

Panel A. Tabulation of country distribution – the most represented countries

Country of Headquarters	Freq.	Percent
United States of America	10014	31.38
China	3673	11.51
United Kingdom	1945	6.10
India	1589	4.98
Australia	1493	4.68
Canada	1371	4.30

Panel B. Tabulation of year

Year	Freq.	Percent
2018	4202	13.17
2019	4893	15.33
2020	5811	18.21
2021	6946	21.77
2022	7453	23.36
2023	2603	8.16
Total	31908	100.00

Panel C. Tabulation of industry

Industry	Freq.	Percent
Academic & Educational Services	112	0.35
Basic Materials	3656	11.46
Consumer Cyclicals	5397	16.91
Consumer Non-Cyclicals	2623	8.22
Energy	1909	5.98
Healthcare	3593	11.26
Industrials	5639	17.67
Real Estate	2452	7.68
Technology	5282	16.55
Utilities	1245	3.90
Total	31908	100.00

Source: Authors' own research.