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Impact of Earning Management on Firms Value: Moderating Role of Political Stability and Corporate Governance Quality

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ABSTRACT

The aim of this study is to examine the impact of earning management on firm's value. Moderating role of political stability and corporate governance quality in context of south Asian developing markets. Earning management accruals and real both used in this study. The dependent variable firm value measured by using the Tobin's Q model, ROA. Data was collected for the non-financial listed firms of textile, sugar, food, chemicals, and energy sectors listed firms for south Asian developing markets. Data collected for the time period of 2013-2022. Major sources of data was Thomasson router, stock screener, FSA and BSA, annual financial reports etc. Study used diagnostic testing i.e. descriptive summary and correlation matrix etc. Study also used Pooled OLS regression and fixed effects model. Population of study consist on non-financial listed firms in South Asian markets. Sample size 400 listed firms are finalized by using stratified sampling technique. The firms from textile, sugar, food and chemical added form Asian developing markets. Findings of study indicates that sign of coefficient for accruals earning management (AEM) is negative and its probability is highly significant. In contrast, sign of coefficient for real earning management (REM) is negative and its probability is highly significant. The sign of coefficient for liquidity (LIQ) and firm size (FS) is negative and its probability is highly significant. The sign of coefficient for GDP is positive and its

probability is highly significant. The sign of coefficient for inflation (INF) positive and its probability is highly significant. Moderating role of political stability is highly significant, similarly, the moderating role of CGQ is also significant. Study is limited to Asian developing market non-financial sectors by using secondary method. In future, study can be extendable by adding more items in CGQ measurements and other Independent variable across the least developing and financial sectors.
Keywords: Real Earning Management, Accrual Earning Management, AEM, REM, CGQ

INTRODUCTION

Corporate governance plays a crucial role in establishing the financial landscape of any economy, influencing the behavior of businesses, and ensuring openness and accountability in the operations of those businesses. According to Beasley (1996), for example, robust governance institutions, such as an engaged board of directors and effective audit committees, are related with lower levels of profits management. Earnings management is the process of strategically manipulating a company's financial accounts in order to reflect a desired financial performance to external stakeholders. The motivation behind this practice is to maximise profits. The management of earnings can be motivated by both legitimate and fraudulent reasons, and it is frequently influenced by a variety Corporate governance is a concept that encompasses those principles and mechanisms. While earnings management is a term that refers to the deliberate manipulation of financial statements by management in order to meet specific reporting objectives, it also raises problems about the credibility of financial information (Healy & Wahlen, 1999) of elements that are present inside an organisation. This relation highlights the role that corporate governance plays in the creation of an environment that discourages managerial opportunism, which in turn contributes to the reliability and accuracy of financial reporting (Dechow & Skinner, 2000).

According to Aguilera and Jackson (2003), researchers have discovered that the efficiency of corporate governance procedures may differ from country to country due to the different institutional settings that exist in individuals' countries. Scholars have discovered that cultural dimensions, such as individualism-collectivism and power distance, have an effect on the way governance mechanisms operate and interact with earnings management practices (Chui et al., 2002). This was discovered in the course of their investigation into the impact that national culture has on corporate governance practices. The strong impact of earnings management practices on a company's performance and valuation has led to some of the biggest accounting scandals in history, including those involving (Morck, 2000), Enronin 2001, and WorldCom in 2002.

Most investors' confidence in the quality of accounting statements and the information they contain has decreased because of these scandals, which has also heightened the attention of regulators, governments, and other entities (Geiger & Van Der Laan Smith, 2010; Ronen, Yaari, Ronen, & Yaari, 2008) assert that while not all management of earnings approachesmisrepresent financial difficulties, a thorough investigation from several perspectives is necessary for the legitimacy of earnings management. Earnings management was used by company insiders to fudge financial data and spread it to the public in order to defend their positions and interests (Brad, Dobre, Ţurlea, & Braşoveanu, 2014). Earnings management is highly important for the company to compile the financial statement. Shu, Yeh, Chiu, and Yang (2015) argued that the benefit of including governance mechanisms from many dimensions is that it eliminates the confusing effects, in which varied views lead to inconsistent predictions on CGQ. In context of developing markets the corporate governance quality consist on weak or below than average quality.

Problem Statement

Investors are more rational about the performance of firms in any market. However, firms in developing areas make investors to not invest in buying the shares due to low firm's value (Wahyudi, Ulfah, and Setiawati 2023). For instance, firms try to manipulate the earning to maintain the investors' confidence, such activities in both accruals and real earning management are most common practices. It is stated that, firms engaged in earning management activities to increase the firm's value, but temporarily accruals activities caused adversely investors' confidence in long time period. Mainly the political stability in Asian developing markets is very lower, because political stability leads to economic stability. In contrast, the political crises in these markets influenced its consequences adversely. Lemma (2024) reported the political stability of advanced market and its consequences on firm's value, as firms with stable political markets perform better and maintain investor's confidence. Similarly, another issue is regarding the corporate governance quality is also very lower in context of developing markets. Furthmore, firms with lower corporate governance quality and lack of political stability highly engaged in earning management activities. This study mainly focusing to examine the impact of real and accruals earning on firms value with moderating role of corporate governance quality and political stability.

Research Objectives

- To examine the effect of real earning management on firms value for non-financial listed firms in Asian developing markets.
- To evaluate the effect of accruals earning management on firms value of non-financial listed firms in Asian developing markets.

- To check the moderating role of Political stability in impact of real earning management on firm value for non-financial listed firms in Asian developing markets.
- To evaluate the moderating role of Political stability in impact of accruals earning management on firm value for non-financial listed firms in Asian developing markets.
- To examine the moderating role of CGQ in impact of real earning management on firm value for non-financial listed firms in Asian developing markets.
- To evaluate the moderating role of CGQ in impact of accruals earning management on firm value for non-financial listed firms in Asian developing markets.

Research Questions

- What is the effect of real earning management on firm's value of non-financial listed firms in Asian developing markets?
- What is the effect of accruals earning management on firm's value of non-financial listed firms in Asian developing markets?
- What is the moderating role of Political stability in impact of real earning management on firm value of non-financial listed firms in Asian developing markets?
- What is the moderating role of Political stability in impact of accruals earning management on firm value of non-financial listed firms in Asian developing markets?
- What is the moderating role of CGQ in impact of real earning management on firm value of non-financial listed firms in Asian developing markets?
- What is the impact the moderating role of CGQ in impact of accruals earning management on firm value of non-financial listed firms in Asian developing markets?

Significance of the Study

This study has some significance including economic benefits for stakeholders. The economic benefits include managers, shareholders, investors, and especially the non-financial sector. The study have various significance for the transparency and accountability in different firms of non-financial sectors. Especially, managers and internal body of governance structure need to address the true world accountability for investor's confidence.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Accrual computation is a common technique used in models to identify

practices of earnings management (Bešlić, Bešlić, Jakšić, & Andrić, 2015). REM and AEM are the two different types of earnings management approaches used in this study. AEM is implemented by changing accounting practices, such as the way depreciation is computed. AEM is the manipulation of the accrual component of earnings, whereas REM occurs when real activities, such as cutting back onspending on R&D or any other expenses that directly affect a company's cash flow, are manipulated by the manager to increase the company's revenue. REM can also be used by changing the timing of processes or financial transactions (Bešlić et al., 2015)). Investigations revealed a negative relationship between accruals and profits. It was discovered that accruals were used more often tobalance cash flows in periods where they would be realized than actual earnings in response to an increase in profits (Frankel & Sun, 2018). A common set of earnings management in the economic outcomes of enterprises in developed and developing countries are determined by the nature of the attempt to manipulate incomes in such countries (Sial, Chunmei, Khan, & Nguyen, 2018). Real earnings management enables a business to achieve desired performance results while also maintaining its reputation andfavorable political image (Ding, Li, & Wu, 2018). For instance, people who think managing earnings is a good practice for the company will define earnings management as the methods managers use to improve the firm's financial position (Healy & Helen, 1999; Al Azeez et al., 2019).

By Leuz, (2003), defined earning management as the intentional manipulation of stated economic performance by insiders in order to confuse stakeholders or affect contractual terms in order to conduct most studies in this field, a proxy for managed earnings must be used. Using empirical models, researchers generally divide total accruals into non-discretionary and discretionary accruals. Discretionary accruals are then utilized as stand-in for managing earnings and are linked to a variety of potential incentives or used as a benchmark for the quality of profits. The Jones model and its modifications are the most popular discretionary accrual a models. By using this flexibility in financial reporting for earnings management, a company's financial performance can be changed (Ortega and Grant, 2003). One such objective is to increase managerial compensation, which is closely related to the firm's earning. The practice of manipulating earnings for either reason is therefore harmful to those who use financial statementsand base their decisions on them, harmful to the firm's performance, and harmful to the wealth of the shareholders (Cornett et al., 2008). When corporate governance procedures impact both earnings management and firm performance, they can be described as "at least in part merely cosmetic" by Cornett et al. (2008). As a result, discretionary accruals should be removed from these performance indicators to determine corporate

governance's actual impact on the company.

According to Gill and Mathur, (2013), there are a number of local factors to blame for the high prevalence of reported earnings management in India, including the regulatory bodies' laxity, the lack of distinctions, low market competitions, a symmetric information, lack of investors understandings based on accountants and place on reporting earnings. The practice of executives using a variety of legal, as well as occasionally illegal, methods and strategies to accomplish certain financial goals is known as earnings management (Gray, Kang, Lin, & Tang, 2015). Accounting accruals, which can be classified as discretionary or non-discretionary, are frequently used to influence net income estimates. Non-discretionary accruals are a result of the state of the firm at a certain period, real earning management is the type of earning management. (Graham et al. 2005) it has been shown that managers prefer real earnings management to accrual earnings management since real earnings management activities are harder to decide which the appropriate course of action is, even though the costs incurred are important to the company's economic health. Managers prefer real activities, such as discretionary expense reduction, over manipulating accruals to control earnings. Businesses have shifted to real earnings management because accrual earnings management is more obvious to market participants and corporate governance processes than real earnings management. (Roychowdhury, 2006).

Theory

The agency theory shows the relationship between principal and agent. The principal is owner or stakeholder, in contrast, agent is manager of firms. The main cause of agency problem between manager and principal is asymmetric goals documented by (Fama and Jenson, 1983; Jensen and Meckling, 1976). A strong corporate governance practice caused to reduce agency issues, in contrast, firms or market where corporate governance mechanism is weak these conflicts gradually increased. As a results managers always need to work in the interest of shareholder. In contrast, the conflict can cause to increase the uncertainty or risk, and reduce in firm’s value. Sometime managers try to manipulate the record in the interest of his personal benefits, and extension, (Nugroho and Eko 2012). According to Gulzar, (2011) duality role can control this conflict of interest between CEO and earning manipulation.

Variables

FIRM VALUE; It is used as a dependent variable. One of the indicators of an organization's effectiveness and efficiency in reaching its goals is the definition of financial performance. Management can demonstrate effectiveness by selecting a goal that can be reached or an acceptable tool to do so. EBIT can be controlled by

management through accruals involving sales and accounts receivable as well as how depreciation and amortization are handled, according to (Cornett et al. 2008). This study use firm value as dependent variable. The dependent variable is measured by using three different proxies i.e. accounting measurement as return on assets and Tobi's q model.

Earning Management: This study used earning management as independent variable. The earning management have two major concepts in literature, accruals earning and real earning management activities.

$$TACCit /Ait1= \alpha0+ \beta1(1/Ait1) + \beta2(\Delta SALESit\Delta REVit/Ait1) + \beta3(PPEit/Ait1) + \beta4ROAit1+\mu it \ldots.(1)$$

- **Accruals Earning Management**

From modified (DeAngelo, 1986), Jones' (1991), Abed, Al-Attar, and Suwaidan (2012), and Revenues as a means of earnings management (managed revenues), four different measures of earnings management (EM) were chosen.

- **Real earning Management**

REM is measured by Roychowdhury (2006) three models.

Discretionary expense without accruals:

$$DISX / AT = \alpha0 + \beta1\ 1 / AT - + \beta2\ Sales / AT + \varepsilon$$

The formula you provided is a regression model used to measure real earning management.

Cash flow operations:

$$CFOit /Ait1= \alpha0+ \beta1(1/Ait1) + \beta2(SALESit/Ait1) + \beta3(\Delta SALESit/Ait1) + \in it$$

This formula measures the relationship between discretionary expenses and two independent variables (firm size and sales) to determine a company is engaging in real earning management.

Production cost activity

$$Prod\ t/ At-1= \alpha0+ \alpha1\ (\ 1 / Log.\ At-1\ ) + \beta1(\ St/\ At-1) + \beta2(\ \Delta\ St/\ At-1) + \beta3(\ \Delta\ St-1/\ At-1) + \varepsilon t$$

PRODt= Production cost of firm at yearend t, where PRODt= COGSt+ Δ INVt

COGSt=Cost of goods sold of firm at year end t, calculated as follows:

$$COGSt/ At-1= \alpha0+ \alpha1\ (\ 1 / Log.\ At-1\ ) + \beta1(\ St/\ At-1) + \varepsilon t$$

ΔINVt=Change of finished goods inventory of firm at year end t, calculated as follow:$\Delta INVt/At-1= \alpha0+ \alpha1\ (\ 1 / Log.\ At-1\ ) + \beta1(\ \Delta\ St/\ At-1)+ \beta2(\ \Delta\ St-1/\ At-1) +$

εt

H1; *There is significant impact of AEM on firms value.*

H2; *There is significant impact of REM on firms value.*

Political Stability: This study also used political stability as moderator. The strong political system can enhance the firm's value for its investors. Lemma et. al. (2024) documented the political stability of U.S. market and its influence on firm's value. The study mainly remained tapped to advance and strong market.

H3; *Political stability significantly moderate the impact of REM on firm value.*

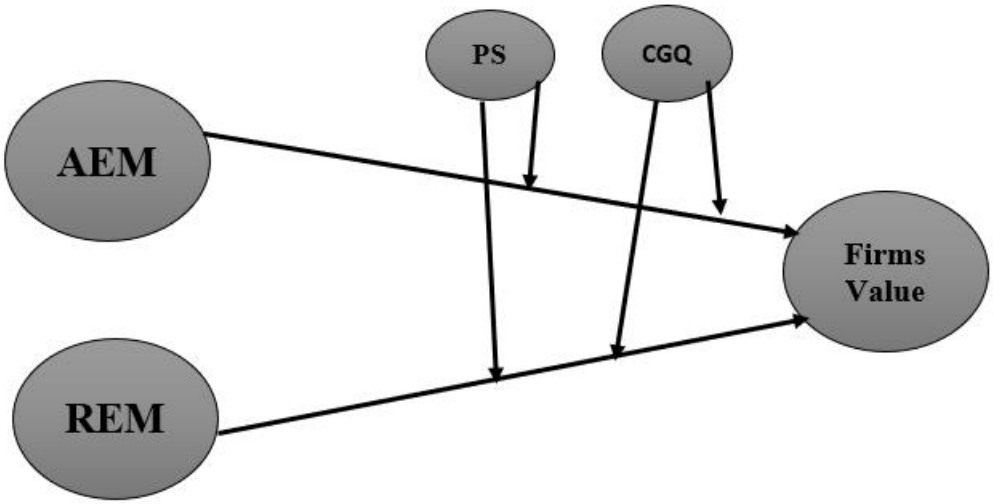
H4; *Political stability significantly moderate the impact of AEM on firm value.*

CGQ It is used a moderating variable. Strong corporate governance systems within a company may improve professional performance in keeping accurate records of commercial transactions and rein in leaders' opportunistic behavior.On the other hand, a poor governance structure may be a contributing factor to commercial misconduct, corruption, and unprofessional behavior (Leventis & Dimitropoulos, 2012). On the other hand, a poor governance structure may be a contributing factor to commercial misconduct, corruption, and unprofessional behavior (Leventis & Dimitropoulos, 2012). According to (Liu & Lu, 2007), corporate governance gives organizations direction and addresses the problems encountered by many stakeholders. There are nine proxies that are used in this study to measure the CGQ for Asian developing markets i.e. Gender Diversity, Audit Committee, Compensation, Attendance, Tenure Affiliation, Board size, family ownership, CEO ownership, and ownership concentration etc.

H5; *Corporate Governance Quality significantly moderate the impact of REM on firm value.*

H6; *Corporate Governance Quality significantly moderate the impact of AEM on firm value.*

Conceptual Framework



RESEARCH METHODOLOGY

Research design

The study used deductive reasoning consist on testing the assumptions of underpinning theories. Regarding the study's methodology, a quantitative research approach will be employed to investigate the influence of earnings management practices on firm performance. The design of this study is quantitative in nature and used secondary data. The detail for data collection as follows.

Data collection

The data of this study consist on non-financial listed firms from South Asian developing markets. The study used major sectors i.e. textile, sugar, food, chemical and energy from South Asian developing markets. The number of market consist in Asian developing markets i.e. Pakistan, Bangladesh, Bahrain, Sri Lanka, Nepal, Jordan and Turkey etc.

Population and sample size

The whole population of this study consist on non-financial listed firms. The major sectors choose textile, sugar, food, chemical and energy etc. The major Asian developing markets i.e. Pakistan, Bangladesh, Bahrain, Sri Lanka, Nepal, Jordan and Turkey etc. The study used only listed firms from major sectors. However the firm's delisted, incomplete data set, shortage of required information, established after the study time duration, firms in the forms of merger and acquisitions are excluded. The target population concise by using the stratified random sampling technique. The country wise distribution of sample size consist as Pakistan (176), Bangladesh, (60), Bhutan, (100), and Sri Lanka (114), Jordan (80) Nepal (100) and Turkey (100). Hence, the total population consist on 450 listed firms from Asian developing markets.

Sampling technique

The sampling technique used in this study stratified simple random, there are

two major categories of sampling. The probability sampling and non-probability sampling. Finally, study used stratified simple sampling technique a sub type of probability sampling.

Data sources

The major sources of data in secondary method i.e. annual reports, of firms, financial statements analysis (FSA), Balance sheet analysis (BSA) issued by SBP, fiscal reports published by companies and authorized institutions. However, the data used in this study also accessed by the stock exchange information, SBP resources, WBI, and Thomson router, stock screener, etc. The data missing from data stream captured by annual and financial reports accessed by firm's web sites.

Data analysis

Data analyzed by using the Eviews software. The details for each tool used by Eviews are given below.

Estimation Techniques

Descriptive statistics are a set of tools used to summarize and describe data in a descriptive summary, summary statistics are presented for each variable, including mean, median, standard deviation, minimum, and maximum values. The correlation matrix measures the pairwise relationship between variables. Correlation coefficients (such as Pearson's correlation coefficients) are calculated for each pair of variables, indicating how strongly and in what direction they are related.

The panel data regression method known as the fixed effects model takes into account unobserved individual variability in the data. The fixed effects model aids in the management of omitted variables that vary between entities and are consistent throughout time. Panel regression, also known as pooled regression or longitudinal regression, is a statisticalmethod used to analyze panel data.

Variables measurements

Variables	Measurements	Sources/ Scale
	Dependent Variable (Firms Value)	
TOBINSQ	Book to Market Ratio	Data Stream
ROA	Return on Assets= Net Income / Total Assets	Annual reports
	Independent Variables (Earning Management)	

AEM	**AEM** is measured by Discretionary accrual (DA) is measured by the models of Jones (1991); Dechow et al. (1995) and Kothari et al. (2005).	CFOit /Ait1= α0+ β1(1/Ait1) + β2(SALESit/Ait1)+β3(ΔSALESit/Ait 1) +∈it
REM	It is measured by two proxies: **REM** which is measured by Roychowdhury (2006).	DAt = TAt – NDA TA = NI –CFO
	Control Variables	
Firm size	Natural log of total assets	Annual Reports
Leverage	Debt / Equity Ratio	Annual Reports
Liquidity	Current Assets / Current Liabilities	Annual Reports
	Moderator Factors	
CGQ	It is measured through nine different proxies, BS, FM, OC. Gender Diversity, Audit Committee, Compensation, Attendance, Tenure Affiliation, Board size, family ownership, CEO ownership, and ownership concentration etc. BS is measured by The total number of members on the board.	Thomson Router / Stock screener
Political Stability	Political index data from WBI i.e. Index of Stability of democracy	World Bank Indicators

	extract from Worldwide Governance Indicators

Econometric equation

ROA =βo+ β1 AEM+ β2REM+ β3 FS β3 LEV + β4 LIQ + β5 GDP + β6 INF +Ɛ ……..(1)

TOBINS Q =βo+ β1 AEM+ β2REM+ β3 FS β3 LEV + β4 LIQ + β5 GDP + β6 INF +Ɛ …….(1)

STOCK RETURN =βo+ β1 AEM+ β2REM+ β3 FS β3 LEV + β4 LIQ + β5 GDP + β6 INF +Ɛ …….(1)

RESULTS AND ANALYSIS

Table 1:Unit root test

Variables	*Probability*	*Level*
AEM	*0.0000*	*1st Level*
REM	*0.0000*	*1st Level*
FS	*0.0000*	*1st Level*
GDP	*0.0417*	*2nd difference*
INF	*0.0000*	*1st Level*
LEV	*0.0001*	*1st difference*
LIQ	*0.0000*	*1st Level*
ROA	*0.0000*	*1st Level*
FV	*0.0000*	*1st Level*

Unit root test is used to evaluate the stationery of data. According to above table the accrual earing management (AEM) is 0.0000*** less than 5%. It indicate that factor is stationery and can be used for further analysis. AEM is significant at simple level. Similarly, the probability for real earning management (REM) is < than 5%. It also indicate the stationery of data at first level. Firm size (FS) shows probability < 5 at 1st level. GDP is also less than 5% but at 2nd difference. The inflation is highly significant at simple level. However, the probability of inflation (INF) is < 5%, leverage (LEV) liquidity (LIQ) and return on assets (ROA) is also significant or less than 5% or 0.05. The other dependent variables i.e. Stock return and firm value (FV) are also less than 5%. Hence, it is stated that there is no single variable greater than 5% or 0.05. It is summarized that all factors fulfilling the fundamentals assumptions of regression i.e. stationery of data. The details of all factors with critical analysis are given below.

Table 2: Descriptive summary

	AEM	*REM*	*FS*	*GDP*	*INF*	*LEV*	*LIQ*	*ROA*	*FV*
Mean	-2.91303	0.642569	-2.165674	3.183544	0.898824	-0.410614	2.721494	13.16779	4.015874
Median	14.92678	2.020685	3.661549	4.396457	0.096800	0.660264	1.094945	1.581037	1.348073
Maximum	303.1405	7.832210	3.937854	13.80000	7.900000	2.224704	14.59730	61.85717	14.30497
Minimum	-471.0827	-35.4065	-2256.623	-12	-30.2	-941.2717	-47.47	-96.30824	-4.13454
Std. Dev.	311.8605	4.988991	42.99557	3.267509	3.739255	18.79730	4.108413	18.94199	5.185175
Observations	4000	4000	4000	4000	4000	4000	4645	4000	4000

Descriptive summary indicates the behavior of data. It consist on mean, median, minimum, maximum values and standard deviation etc. Above table included earning management factors, real and accruals earning management. Determinants of firm value i.e. GDP inflation and firm size, leverage, liquidity etc. reported below.

The mean value of accrual earning management (AEM) is -2.91303. Similarly, mean for real earning management (REM), 0.6425, firm size (FS) -2.1656, GDP 3.183, inflation (INF) 0.8988, leverage (LEV) -0.4106, liquidity (LIQ) 2.7214, return on assets (ROA) 13.167, stock return 13.7075 and firm value (FV) 4.0158. The ROA, stock return and firm value used as dependent variables in this study. Furthmore, the minimum and maximum values of accrual earning management (AEM) are -471.0827 & 303.1405. Similarly, minimum, maximum values for real earning management (REM), -35.4065 & 7.83221, firm size (FS) -2256.623 & 3.937854, GDP -12 & 13.80000, inflation (INF) -30.2 & 7.900000, leverage (LEV) -941.2717 & 2.224704, liquidity (LIQ) -47.47 & 14.59730, return on assets (ROA) 96.30824 & 61.85717, stock return 13.70000 & 246.3150 and firm value (FV) -4.13454 & 14.30497. However, the median values for explanatory factors are as follows, accrual earning management (AEM) 14.92678, real earning management (REM) 2.020685 firm size (FS) 3.661549 GDP 4.396457 inflation (INF) 0.096800, leverage (LEV) 0.660264 liquidity (LIQ) 1.094945 return on assets (ROA) 1.581037 stock return 131.3000 firm value (FV) 1.348073.

The standard deviation for the determinants of firm value as follows accrual earning management (AEM) is 311.8605. Similarly, standard deviation for real earning management (REM), 4.98899, firm size (FS) 42.99557, GDP 3.267509,

inflation (INF) 3.739255, leverage (LEV) 18.79730, liquidity (LIQ) 4.108413, return on assets (ROA) 18.94199, stock return 63.44009 and firm value (FV) 5.185175. Standard deviation shows the distance form mean value, the high distance indicate the high risk. It is stated the risk is normal in factors because there is normal distance between mean value and standard deviation of each factors.

Table 3: Correlation matrix

	AEM	*REM*	*FS*	*FV2*	*GDP*	*INF*	*LEV*	*LIQ*	*ROA*
AEM	*1*								
REM	*0.651536976*	*1*							
FS	*0.547004827*	*0.553717764*	*1*						
FV2	*0.126227162*	*0.29374223*	*0.141950876*	*1*					
GDP	*0.419571826*	*0.663091978*	*0.35153618*	*0.794501483*	*1*				
INF	*0.695528563*	*0.768238217*	*0.472539299*	*0.694379371*	*0.693744541*	*1*			
LEV	*0.636164179*	*0.381017584*	*0.61097007*	*0.113216407*	*0.271230882*	*0.423663533*	*1*		
LIQ	*0.139052812*	*0.248383966*	*0.246832362*	*0.824937821*	*0.648127045*	*0.680701271*	*0.224666036*	*1*	
ROA	*0.160279889*	*0.289960188*	*0.206805775*	*0.670639913*	*0.655384954*	*0.635118397*	*0.188647944*	*0.617316144*	*1*

Correlation matrix indicate the relationship between variables. The weaker or strong relationship exist between all factors. It also indicate the issue of multicolenraty. The issue of multicolrntry exist when two or more factors highly correlate with each other's.

According to above table firm value (FV) and credit risk (CR) are 65% correlated with each other's. The relationship is positive and strong between these factors. However, firm value and systematic risk are 68% correlated with each

other's. The credit risk and systematic risk are 53% correlated, systematic risk and firm size are 46% GDP and INF are 69%, leverage with credit and systematic risk is 5% and 38% correlated. Finally, LIQ is 61%, with firm value, 57% with ROA, 62 % with systematic risk, 24 % with firm size, and 62% with GDP, 69% correlated with inflation, 14% with leverage, 62% with liquidity and 64 % with return on assets. It is stated that correlation matrix is used to examine the relationship and issue of multicolrntry between variables. The variables are strongly positive correlated with each other's. There is no single value that is less greater than 70. All factors are correlated with each other's but less than 70%. It is finalized that there is no issue of multicolrntry exist among the variables. Before this regression it assumptions are mandatory to full filled. The results for regression analysis are given below.

Table 4: Pooled OLS Regression

Dependent Variable: FV

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.064926	0.040723	1.594347	0.1109
AEM	-0.000843	1.980005	-42.50609	0.0000
REM	-0.537585	0.012592	-42.69211	0.0000
FS	-0.011024	0.001992	-5.533821	0.0000
LEV	0.040801	0.004750	8.589131	0.0000
LIQ	-0.045506	0.013773	-3.303893	0.0010
GDP	0.922651	0.013267	69.54508	0.0000
INF	1.369883	0.024139	56.74940	0.0000

*The R-square is 0.906010, adjusted R square is 0.905868. F statistics is significant and Durban Watson is near about 2. There are three level of significant i.e. *** 99%, ** 95% and * 90%.*

The sign of coefficient for accruals earning management (AEM) is negative with -0.000843 and its probability is highly significant with 0.0000. It is stated that three is negative significant impact of accruals earning management on firm value. Negative sign indicates the adverse association among factors. Similarly, sign of coefficient for real earning management (REM) is negative with -0.537585 and its probability is highly significant with 0.0000. The level of significance for this factor is at *** 99%. The sign of coefficient for firm size (FS) is positive with 0.011024 and its probability is highly significant with 0.0000. It is stated that three is positive significant impact of firm size on firm value. Sign of coefficient for leverage (LEV) is positive with 0.040801and its probability is highly significant with 0.0000.

The sign of coefficient for liquidity (LIQ) is negative with -0.045506 and its probability is highly significant with 0.0000. The sign of coefficient for GDP is positive with 0.922651and its probability is highly significant with 0.0000. Hence, it is stated that due to one unit change GDP as positive the value of firms gradually increased. The sign of coefficient for inflation (INF) positive with 1.369883 and its probability is highly significant with 0.0000. It is stated that three is negative significant impact of accruals earning management on firm value.

Pooled OLS Regression

Table 5: ***Dependent Variable: ROA***

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.268363	0.107466	2.497183	0.0126
AEM	-0.002560	5.230005	-48.91863	0.0000
REM	-1.547130	0.033230	-46.55788	0.0000
FS	-0.039765	0.005257	-7.563679	0.0000
LEV	0.177976	0.012536	14.19732	0.0000
LIQ	1.147483	0.036347	31.56982	0.0000
GDP	1.885008	0.035011	53.84034	0.0000
INF	4.465863	0.063703	70.10499	0.0000

The R-square is 0.950952, adjusted R square is 0.950878. F statistics is significant and Durban Watson is near about 2.

The sign of coefficient for accruals earning management (AEM) is negative with -0.002560 and its probability is highly significant with 0.0000. It is stated that three is negative significant impact of accruals earning management on firm value. The sign is negative and probability is less than 5% or 0.05. The level of significance for this factor is at *** 99%. Similarly, sign of coefficient for real earning management (REM) is negative with -1.547130 and its probability is highly significant with 0.0000. The sign of coefficient for firm size (FS) is negative with -0.039765and its probability is highly significant with 0.0000. Negative sign indicates the adverse association among factors. Sign of coefficient for leverage (LEV) is positive with 0.177976 and its probability is highly significant with 0.0000.

The sign of coefficient for liquidity (LIQ) is positive with 1.147483 and its probability is highly significant with 0.0000. It is stated that three is negative significant impact of liquidity on firm value. The sign of coefficient for GDP is positive with 1.885008 and its probability is highly significant with 0.0000. It is

stated that three is positive significant impact GDP on firm value. The sign of coefficient for inflation (INF) positive with 4.465863 and its probability is highly significant with 0.0000. It is stated that three is positive significant impact of inflation on firm value. Hence, it is stated that due to one unit change or increased in inflation value of firms gradually increased.

Table 6: Hausman test

Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	7	0.0000

The probability of Hausman test is highly significant indicates the fixed effects model rather than random model. In case of significant probability the fixed model is most appropriate for this study.

Table 7; Fixed affects model

Dependent Variable: FV

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.064926	0.007981	8.135504	0.0000
REM	-0.537585	0.002468	-217.8459	0.0000
AEM	-0.000843	3.890006	-216.8966	0.0000
FS	-0.011024	0.000390	-28.23753	0.0000
LEV	0.040801	0.000931	43.82792	0.0000
LIQ	-0.045506	0.002699	-16.85884	0.0000
GDP	0.922651	0.002600	354.8690	0.0000
INF	1.369883	0.004731	289.5763	0.0000

Fixed Effects (Cross)

The sign of coefficient for AEM is negative with -0.537585 and its probability is highly significant with 0.0000. It is stated that three is negative significant impact of accruals earning management on firm value. Similarly, sign of coefficient for REM is negative with -0.000843 and its probability is highly significant with 0.0000. It is also stated that three is negative significant impact of real earning management on firm value. The sign of coefficient for firm size (FS) is negative with -0.011024 and its probability is highly significant with 0.0000. It is stated that three is negative

significant impact of firm size on firm value. Negative sign indicates the adverse association among factors. Sign of coefficient for leverage (LEV) is positive with 0.040801 and its probability is highly significant with 0.0000.

The sign of coefficient for liquidity (LIQ) is negative with -0.045506 and its probability is highly significant with 0.0000. It is stated that three is negative significant impact of liquidity on firm value. The sign of coefficient for inflation INF and GDP positive with 1.369883 and its probability is highly significant with 0.0000. The sign of coefficient for GDP is positive with 0.922651 and its probability is highly significant with 0.0000. The sign is positive and probability is less than 5% or 0.05. The level of significance for this factor is at *** 99%. Hence, it is stated that due to one unit change or increased in inflation value of firms gradually increased.

Table 8: *Dependent Variable: ROA*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.268363	0.021061	12.74242	0.0000
REM	-1.547130	0.006512	-237.5718	0.0000
AEM	-0.002560	1.030005	-249.6180	0.0000
FS	-0.039765	0.001030	-38.59533	0.0000
LEV	0.177976	0.002457	72.44493	0.0000
LIQ	1.147483	0.007123	161.0919	0.0000
GDP	1.885008	0.006861	274.7321	0.0000
INF	4.465863	0.012484	357.7261	0.0000

Fixed Effects (Cross)

The sign of coefficient for AEM and REM is negative with -1.547130 and its probability is highly significant with 0.0000. It is stated that three is negative significant impact of accruals earning management on firm value. Similarly, sign of coefficient for real earning management (REM) is negative with -0.002560 and its probability is highly significant with 0.0000. It is also stated that three is negative significant impact of real earning management on firm value. The sign is negative and probability is less than 5% or 0.05. The level of significance for this factor is at *** 99%. Hence, it is stated that due to one unit change in real earning the value of firms gradually increased. Negative sign indicates the adverse association among factors. The sign of coefficient for FS and LEV is positive with 0.039765 and its probability is highly significant with 0.0000. It is stated that three is positive significant impact of firm size on firm value. For LEV is positive with 0.177976 and

its probability is highly significant with 0.0000. It is stated that three is positive significant impact of leverage on firm value.

The sign of coefficient for liquidity (LIQ) is positive with 1.147483 and its probability is highly significant with 0.0000. It is stated that three is positive significant impact of liquidity on firm value. The sign of coefficient for GDP and INF is positive with 1.885008 and its probability is highly significant with 0.0000. It is stated that three is positive significant impact GDP and INF on firm value. The sign is positive and probability is less than 5% or 0.05. The level of significance for this factor is at *** 99%. Hence, it is stated that due to one unit change GDP as positive the value of firms gradually increased. The sign of coefficient for inflation (INF) positive with 4.465863 and its probability is highly significant with 0.0000.

Table 9: Moderator Analysis

VARIABLES	*1-PAKISTAN*		*2-BANGLADESH*		*3-BAHARAIN*		*4-SRILANKA*	
	Coef.	*P>t*	*Coef.*	*P>t*	*Coef.*	*P>t*	*Coef.*	*P>t*
PSAEM	-.366476.	0.00012	0.000	0.00054	63.272	0.013	-0.0242	0.290
PSREM	1.35728	0.00024	0.000	0.00012	-409.23	0.164	0.19647	0.160
PSCOV2	0.09893	0.000001	0.000	0.00001	9.23	0.00	-0.3223	0.3260
PSCR2	-265.91	0.0089	0.005	0.0004	-100.83	0.00	-0.0024	0.509
CGQAEM	166.188	0.00347	0.496	0.00103	34.1382	0.0068	-4.25E-07	0.9698
CGQREM	-30.7540	0.00815	0.554	0.00454	-0.63	0.000	3.16E-06	0.004
CGQCOV2	14.670	0.035846	0.539	0.00659	0.39	0.0338	-1.44E-06	0.000
CGQCR2	5.16405	0.052096	0.755	0.00340	-1.17	0.000	-1.39E-	0.0163

The results shows that political stability moderation effects with AEM sign of coefficient is positive with .3610288 and its probability is significant at 90% level of significance. It indicates that political stability significant positively moderate the impact of accruals earning management on firms value. Hence, it is stated that

Pakistan is developing market and the role of political in enhancing accruals activities is incorporated. In contrast, the sign of political stability moderation influence with REM I negative and its probability is also significant. It is stated that in this market the real earning gradually decreased and political stability significant negatively moderate this relationship. It is finalized that political stability positive significantly moderate the impact of AEM on firm value. In contrast, political stability negatively significant moderate the impact of REM on firm's value.

The t-test also indicted that values for both PS-AEM and PS-REM are greater than +1.96 & -1.96. It is stated that both hypothesis are accepted. In contrast, the t-test for CGQ are less than 1.96, shows that both hypothesis of CGQ moderation in context of Pakistani market are also accepted. The findings of this study are accurate with the developing markets scenario where there is need to improve the CGQ and control transparency and accountability. Finally, moderation effects with systematic risk are positive significiant in Pakistan, contrary credit risk is negative significant moderated by political stability. It is stated that in Pakistan, the market beta is temporary maintain with the influence of political bodies, hence positive consequences are reported. In contrast, the credit risk policy and benefits from different sources mainly leads to negative impact on firm value. The study reported both political stability and CGQ as moderator in above table. Study shows that PS-REM is negatively significant with the moderation effects of political stability. However, the PS-AEM and moderator influences of CGQ are significant.

The results shows that political stability moderation effects with AEM sign of coefficient is positive with 1.214924 and its probability is significant at 99% level of significance. It indicates that political stability significant positively moderate the impact of accruals earning management on firms value. Hence, it is stated that Bangladesh is developing market and the role of political in enhancing accruals activities is incorporated. The probability also indicted that values for both PS-AEM and PS-REM are less than 5%. It is stated that both hypothesis are accepted. In contrast, CGQ are less than 0.05, shows that both hypothesis of CGQ moderation in context of Bangladesh market are also accepted. The findings of this study are accurate with the markets scenario where there is need to improve the CGQ and control transparency and accountability. Results reported above indicates that political stability in Bahrain have negative consequences. However, in moderator effects the probability is significant in both PS-AEM and PS-REM. It is finalized that there is significant moderator influences of political stability in Bahrain. In contrast, the t-test for CGQ are less than shows that both hypothesis of CGQ moderation in context of Bahrain market are also accepted. The findings of this study are accurate with the developing markets. In the light of existing literature researchers founded both positive and negative consequences of real earning activities on firm value i.e. (Roy Chaudhary, 2006; Kothari 2016; Cohen et.al. 2010; Kim and Sohn 2017).

Above table shows the results of ROA as measurement of firm value. PS-AEM sign of coefficient is negative with -0.0255968, probability is significant 0.019. It is stated that political stability significant negatively moderate the impact of AEM on firm's value in Srilanka. In contrast, PS-REM is positive significant, it means political stability in Srilanka positive significant moderate the impact of REM on firm's value. PS-AEM sign of coefficient is negative with -0.0255968, probability is significant 0.019. It is stated that CGQ significant negatively moderate the impact of AEM on firm's value in Srilanka. In contrast, CGQ-REM is positive significant, it means CGQ in Srilanka positive significant moderate the impact of REM on firm's value. It is finalized that there is no significant moderator influences of political stability in Srilanka. Furthmore, the moderating role of CGQ-AEM and CGQ-REM is significant. A study conducted by **Graham et.al. (2005)** documented that real earning activities can be used to create a signal for future growth of firms, hence it leads to increased investors value or vice versa. Furthmore, in light of **Agency Theory** Kathari et.al. (2016) reported that real earning activities can be used to reduce the agency cost by decreasing the likelihood interest between managers and stakeholder.

VARIABLES	*5-JORDAN*		*6-NEPAL*		*7-IRAQ*		*8-TURKEY*	
	Coef.	*P>t*	*Coef.*	*P>t*	*Coef.*	*P>t*	*Coef.*	*P>t*
PSAEM	-0.0527	0.001	-3.4765	0.000	0.05163	0.0024	-2.28E-06	0.0347
PSREM	-0.0268	0.672	25.7761	0.000	-0.2163	0.0012	0.073761	0.000
PSCOV2	0.02409	0.886	3.01867	0.216	-0.5022	0.0085	0.899846	0.000
PSCR2	0.0102	0.749	-0.1762	0.741	0.24144	0.0925	-0.01704	0.000
CGQAEM	0.0051	0.677	-0.0088	0.581	0.00121	0.022	4.89E-10	0.0013
CGQREM	0.03331	0.682	0.06706	0.61	-0.1056	0.0643	-5.44E-06	0.000
CGQCOV2	-0.0529	0.804	0.10975	0.19	0.10569	0.0038	0.00019	0.0122
CGQCR2	0.00277	0.951	-3.4765	0.7	0.00829	0.000	1.66E-06	0.0246

In context of Jordan market the moderating role of Political stability in impact of AEM on firm value i.e. PS-AEM is negative significant. In contrast, PS-REM and CGQ-AEM, CGQ- REM are insignificant. It is stated that there is no moderating role of CGQ in AEM and REM impact on firm value for Jordan market. The moderating role of Political stability in impact of AEM on firm value i.e. PS-AEM negative significant and PS-REM is positive significant. In contrast, CGQ-

AEM, is positive significant CGQ- REM negative significant. It is stated that there is significant moderating role of political stability and CGQ in AEM and REM impact on firm value for Nepal market. In contrast, CGQ-AEM, is positive significant CGQ-REM insignificant. It is stated that there is significant moderating role of CGQ in AEM and REM, credit and systematic risk for Nepal market. Tahir Khan (2021) argued that CG system negative influenced on EM, this relationship is enhanced that leads to EM and firms value CGQ negatively moderate the EM AND firms value. The moderating role of Political stability in impact of AEM on firm value i.e. PS-AEM negative significant and PS-REM is positive significant. However, CGQ-AEM, is positive significant CGQ- REM negative significant. It is stated that there is significant moderating role of political stability and CGQ in AEM and REM impact on firm value for Iraq market. In the light of existing literature study conducted by **Cohen and Zarowin (2010)** documented that accruals earning management activities negatively impact the firms value. In contrast, **Kim and Sohan (2017)** also founded the positive consequences of accruals earning management activities on firm value.

In context of Turkey market the moderating role of Political stability in impact of AEM on firm value i.e. PS-AEM negative significant and PS-REM is positive significant. It is stated that in Turkey accruals earning caused reduction in value, contrary the real activities are positively moderated by political stability. In contrast, CGQ-AEM, is negative significant CGQ- REM positive significant. It is stated that there is significant moderating role of CGQ in AEM and REM impact on firm value for Turkey market. Similarly, CGQ-AEM, is significant CGQ- REM is also significant. It is stated that there is significant moderating role of CGQ in AEM and REM impact on firm value for Turkey market. Title impact of OS and EM on TOBINS Q evidences from Thailand market. Used Roman and Shahruar Model (2008). Nuansarad and Chasiwan (2025) argued that EM negative signifnct with firms market Performnace. Hence, it reduce the value of firms.

KEY FINDINGS AND CONCLUSION

Key findings

The sign of coefficient for accruals earning management AEM is negative and its probability is highly significant. Similarly, sign of coefficient for real earning management REM is negative and its probability is highly significant. The sign of coefficient for FS, LEV GDP and INF is positive and its probability is highly significant. The sign of coefficient for AEM and REM is negative and its probability is highly significant. The sign of coefficient for liquidity (LIQ) is negative and its probability is highly significant. By using fixed effects model sign of coefficient for accruals earning management (AEM) is negative and its probability is highly

significant. Sign of coefficient for firm size (FS) liquidity (LIQ) is negative and its probability is highly significant. In contrast, sign of coefficient for leverage (LEV) is positive and its probability is highly significant. Hence, it is stated that due to one unit change in liquidity the value of firms gradually increased. The sign of coefficient for GDP is positive and its probability is highly significant. It is stated that three is positive significant impact GDP on firm value.

Hence, it is stated that Pakistan is developing market and the role of political in enhancing accruals activities is incorporated. The findings of this study are accurate with the developing markets scenario where there is need to improve the CGQ and control transparency and accountability. Finally, moderation effects with systematic risk are positive significiant in Pakistan, contrary credit risk is negative significant moderated by political stability. It is stated that in Pakistan, the market beta is temporary maintain with the influence of political bodies, hence positive consequences are reported.

Hence, it is stated that Bangladesh is developing market and the role of political in enhancing accruals activities is incorporated. However, in moderator effects the probability is significant in both PS-AEM and PS-REM. It is finalized that there is significant moderator influences of political stability in Bahrain. In contrast, the t-test for CGQ are less than shows that both hypothesis of CGQ moderation in context of Bahrain market are also accepted. The findings of this study are accurate with the developing markets.

It is stated that political stability significant negatively moderate the impact of AEM on firm's value in Srilanka. In contrast, that there is no significant moderator influences of political stability in Srilanka. Furthmore, the moderating role of CGQ is significiant. It is stated that there is no moderating role of CGQ in AEM and REM impact on firm value for Jordan market.

The moderating role of Political stability in impact of AEM on firm value i.e. PS-AEM negative significant and PS-REM is positive significant. In contrast, CGQ-AEM, is positive significant CGQ- REM negative significant. It is stated that there is significant moderating role of political stability and CGQ in AEM and REM impact on firm value for Nepal market. In contrast, CGQ-AEM, is positive significant CGQ-REM insignificant. It is stated that there is significant moderating role of CGQ in AEM and REM, credit and systematic risk for Nepal market.

The moderating role of Political stability in impact of AEM on firm value i.e. PS-AEM negative significant and PS-REM is positive significant. However, CGQ-AEM, is positive significant CGQ- REM negative significant. It is stated that there is significant moderating role of political stability and CGQ in AEM and REM impact on firm value for Iraq market. It is stated that there is significant moderating role of

CGQ in AEM and REM impact on firm value for Turkey market. Similarly, CGQ-AEM, is significant CGQ- REM is also significant. It is stated that there is significant moderating role of CGQ in AEM and REM impact on firm value for Turkey market.

CONCLUSION

It is concluded in the light of above discussion that the aim of study is to check the impact of earning management on firms value, moderating role of political stability and corporate governance quality. Earning management accruals and real both used in this study. The dependent variable firm value measured by using the Tobin's Q model, ROA. Data was collected for the non-financial listed firms of textile, sugar, food, chemicals, and energy sectors listed firms for south Asian developing markets. Data collected for the time period of 2013-2022. Major sources of data was Thomasson router, stock screener, FSA and BSA, annual financial reports etc. Study used diagnostic testing i.e. descriptive summary and correlation matrix etc. Study also used OLS regression and fixed effects model. Findings of study indicates that sign of coefficient for accruals earning management (AEM) is negative and its probability is highly significant. In contrast, sign of coefficient for real earning management (REM) is negative and its probability is highly significant. The sign of coefficient for firm size (FS) is positive and its probability is highly significant. Sign of coefficient for leverage (LEV) is positive its probability is highly significant. The sign of coefficient for liquidity (LIQ) and firm size (FS) is negative and its probability is highly significant. The sign of coefficient for GDP is positive and its probability is highly significant. It is stated that three is negative significant impact GDP on firm value. The sign of coefficient for inflation (INF) positive and its probability is highly significant. Finally, implications, limitations and future recommendations of study are given below. The moderator indicate that political stability have positive significant moderating role in relationship of AEM, REM and firms value, in contrast CGQ have insignificant moderating role in relationship of AEM and REM on firms value.

The results reveal that corporate governance significantly moderates the impact of both real and accrual-based earnings management on firm value. This moderating effect is particularly significant in Pakistan, Turkey, Bangladesh, Bahrain, Iraq, and Nepal. Strong corporate governance practices in these markets help mitigate the adverse effects of earnings management, thereby protecting firm value. Conversely, weak governance structures allow earnings manipulation to distort financial reporting, leading to reduced transparency, higher risk, and potential loss of investor confidence. These consequences highlight the critical role of governance in sustaining firm value in developing economies. In contrast, the analysis indicates

that corporate governance insignificantly moderates the impact of real and accrual-based earnings management on firm value in Jordan and Sri Lanka. This weak moderating role can be attributed to factors such as underdeveloped governance mechanisms, weak enforcement of regulatory frameworks, limited investor protection, and political or institutional inefficiencies. As a result, earnings management practices in these countries continue to influence firm value without substantial restraint from governance systems, reflecting gaps in transparency and accountability.

The findings show that political stability significantly moderates the impact of real and accrual-based earnings management on firm value in Pakistan, Turkey, Bangladesh, Iraq, and Nepal. Stable political environments in these countries strengthen institutional quality, reduce uncertainty, and enhance the effectiveness of governance in curbing earnings manipulation, thereby protecting firm value. However, the moderating role of political stability is insignificant in Jordan and Sri Lanka, likely due to persistent political volatility, weaker institutional frameworks, and governance inefficiencies that limit its ability to restrain the adverse effects of earnings management on firm value.

The study is implacable for the policy makers, researchers and students etc. Study is also implacable for the investors of to take cetin decision especially for non-financial sectors. Study is also implacable for the Govt. to get the better advantages of revenue. This study is limited for developing Asian markets and non-financial listed firms only. The study is limited to textile, sugar, food, chemical and energy sectors listed firms. In future the study can be extended by adding more economies or across the developing and developed markets. The study can be extended by adding some other variables. The study can be extended for updated time period of data. The study cab be extended across the financial and non-banking financial institutions. In future the study can be extended by making sensitivity and sectoral analysis for the determinants of firm value in different economic recessions.

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