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"CORPORATE GOVERNANCE, OWNERSHIP STRUCTURE, GENDER DIVERSITY AND POLITICAL CONNECTION IN THE FIRMS' EARNING MANAGEMENT: EMPIRICAL EVIDENCE FROM SOUTH ASIAN MARKET"

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ABSTRACT

The purpose of this research is to empirically examine corporate governance; ownership structure, the role of political interferences, and the impact of gender diversity on earning management. A Multi-regression and linear regression technique analysis is used in this study. A panel data of 597 non-financial list firms of South Asian countries i.e., Pakistan, India, Bangladesh, and Sri Lanka for the 2008-2018 period is considered for this study. Secondary data is collected in two ways i.e., through Thomson Ruther and from the annual reports of non-financial firms listed on PSX, DSE, NSE India, and CSE. Four econometric equations are constructed to examine the research hypothesis. As per finding of the current study, the stewardship theory has the highest explanatory power in context of earning management. The study also examines that socioeconomic theories have no impact on earning management in South Asian Countries. The result of this suggests that by improving the role of regulatory authorities, mitigate the effects of other components which alter the firm's performance. Several studies have already been commenced to build a connection of earning management with corporate governance, with ownership structure, with gender diversity, and with political connection, but there is not even single research in the literature that considers CG, ownership structure, gender diversity, political connection discretionary earning management as a whole in one model to generalize its results in the emerging economies of Pakistan, India, Bangladesh, and Sri Lanka.

Keywords: Corporate governance index, Political connection, gender diversity, Female CEO, Institutional Ownership, Family Ownership.

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LIST OF ABBREVIATIONS

EM	Earning Management
CG	Corporate Governance
IO	Institutional Ownership
FO	Family ownership
GD	Gender Diversity
FCEO	Female CEO
PLOC	Political Connection
FA	Firm Size
BoG	Board of Governor
AQ	Audit Quality
NC	Nomination Committee
Qual	Qualification
DP	Dividend payout ratio
MTB	Market to book value
MP	Market power
PSX	Pakistan Stock Exchange
NSE	Nation Stock Exchange of India
CSE	Colombo Stock Exchange
DSE	Dhaka Stock Exchange

CHAPTER 1

INTRODUCTION

1. Overview of Introduction:

This chapter sets the framework for this thesis by providing a general overview of the research (Section 1.1). It includes an overview of the problem (Section 1.2), a research question (Section 1.3), and a list of objectives (Section 1.4). Section 1.5 explains the importance study, and Section 1.6 summarizes the research's contribution.

1.1. Introduction of the Study:

Earning management is one of the main issues encountered by the corporate world and is directly linked with the political situation, social circumstances, prevalent economic conditions, governance issues, and ownership of the corporation. Organizations that fail to achieve goals involve in earnings manipulation (Cardinaels et al., 2021). For this purpose, managers use aggressive accounting strategies (Siregar, 2017) to manipulate the outcome (earnings). Though studies have revealed the tangent impact of earning management (de Fátima Santana & Sarquis, 2021; Nazir & Afza, 2018), however, it is generally agreed upon that using various tools of earnings management true financial position of companies and facts shareholders have a right to know (Amar & Chakroun, 2018) are often hidden as being practiced through the publication of yearly progress books and handouts.

The Asian Financial crisis of 1997, which uncovered frail governance in many firms, made the business world more devoted to a firm's internal corporate governance systems' efficacy. (El Diri et al., 2020). Before long, as expanding cases of fraud /extortion surfaced in the financial reports of a few enormous organizations like Enron, WorldCom, Tyco Global, Parmalat, the Taj Organization, etc. Many countries created corporate governance codes to enhance the frameworks of their corporate governance. Making sure that financial reporting processes are transparent is one of a corporate governance organization's crucial duty. (Kamran & Shah, 2014). Implementation of corporate governance guidelines issued by the government helps the corporations in specific and country in general to attract the investors and increase the firm's earning management. The corporate governance index would ensure shareholder, stakeholder and investors' safety protecting them from corporate scandals. According to OECD 2004 the right of stakeholder that are set by regulation or through mutual agreement should be respected, timely and accurate disclosure of all material matters regarding the firms / corporation, protection of shareholders right, development of framework that can affect overall economic performance, market integrity and the enticements, capable of creating for market contributors and the elevation of transparent and well-organized markets.

(Carter et al., 2003; Bufarwa et al., 2020) have identified in his study that gender diversity is one of the broader concepts of diversification in the BoG and found his research due to diverse perception and unique working style of female helps to improve firm performance. The researchers have also revealed that the more gender diversity, the better the financial performance of the organization especially females' presence in BoG, a fact not focused upon in previous studies (Huse et al., 2009). Studies have identified that the presence of females leads to better monitoring, crystal clear reporting, ethical thinking, and lower information asymmetry, which ultimately facilitate better earnings quality (Adams & Ferreira, 2009).

The Firms' ownership goes hand in gloves with earning quality. These entities are measured by contractual relation between the stakeholder and management. Case in point is family firms with long term perspective of transferring business to coming generations; in contrast to investors dealing in stock markets for seeking immediate advantage (Prencipe et al., 2014). Therefore, it is common that institutional ownership is concerned with the governance mechanism of firms for the reason that honest governance is closely allied with increased transparency and accountability. The organizational success is linked with steward's motivation for protecting assets, improving the wealth of shareholders, and shielding creditors.

Different studies have brought to light the fact that political connections/affiliation strongly impact earning quality (Wang et al., 2018). Though more relevant with developed economies, the phenomenon also prevails in underdeveloped countries, however, remains far from conclusive. This establishes a fact of examining how political connections impact accounting quality, as stakeholders' decision-making quality heavily relies on corporate disclosure.

1.2. Research Gap:

In the current study, it focuses exclusively on four countries in South Asia (Pakistan, India, Bangladesh, and Sri Lanka) to assess the explanatory power of theories such as agency theory, stewardship theory, political theory, and socio-economic theory. Impact of ownership structure on earning management (Ilyaas, 2020) has been done in Pakistan on non-financial firms. This narrow geographical scope creates a research gap as it restricts the generalizability of the findings to a broader context. Furthermore, the study solely examines two types of ownership structure, namely family ownership and institutional ownership. This suggests a need to reconstruct the review by comparing firms in developed countries with those in non-developed countries. Additionally, it is crucial to consider a wider range of ownership structures to enhance the comprehensiveness of the study. By addressing these gaps, a more comprehensive understanding of the subject matter can be achieved.

1.3. Problem Statement:

The notion that governance effectiveness constrains manager discretion over accounting information needs to be testified in the context of developing and underdeveloped economies. The phenomenon is that long-term corporate goals and perspectives are more relevant in the case of family-owned firms as compared to institutions and modes of investments managed through multiple stakeholders with no single ownership entity (Reay et al., 2015). Effects of gender diversity on earning management being highly inconclusive need to be evaluated for accurately establishing the effect of these factors on a firm's overall performance and financial position. Political connections impact on earning quality is more pronounced in underdeveloped countries and hence leads to persistent adaptability of portfolios. In the South Asian context, poor governance, higher level of government involvement, weaker shareholder protection rights, the persistence of information asymmetry and less representation of female on the corporate board has been highlighted as the determinants of earnings quality. So far, these variables are tested either separately or in the context of their theoretical background (Arslan & Alqatan, 2020 ; H. Khan et al., 2020). To justify one finding may depend on the outcome of another construct. Therefore, it is needed to explore the explanatory power of each construct in the South Asian context. This may help explore the role of each theory in South Asia. Therefore, in the current study, the researchers explore the explanatory power of each theory in determining firms' reported earnings quality. In addition, the political role remains one of the dominant forces in determining firms' different policies, as it impacts management choices like earning management that ultimately reduces firms' reported earnings quality. Based on these viewpoints, it is quite imperative to explore the moderating role of political connections in a firm's reported earnings quality.

1.4. Research Questions:

Q1. What theory, among agency theory, stewardship theory, socio-economic theory, and political theory, predicts comparatively higher reported earning quality in firms operating in the South Asian market?

Q2. What is the relationship between corporate governance and reported earnings in firms operating in the South Asian market?

Q3. What is the impact of concentrated ownership structures, (measured by institutional and family ownership), on serving as stewards for minority shareholders concerning reported earnings in the South Asian market?

Q4. What is the relationship between board diversity, as measured by the presence of a female ratio on in BoG and a female CEO, and its impact on a firm's reported earning quality and socioeconomic benefits for different stakeholders in the South Asian market?

Q5. What is the relationship between political theory, measured by political connection, and the association between ownership structure, corporate governance, and board diversity on reported earning management in South Asian markets?

1.5. Research Objectives:

a) To highlight the explanatory power of each theory in explaining firms' reported earnings quality/ management in South Asia.
b) To examine the factors/determinants of earning management.
c) To examine the impact of corporate governance on earning management.
d) To examine the impact of firm ownership on the earning quality of a firm.
e) To examine the impact of gender diversity on firms earning
f) To examine the impact of political affiliation or political connection on the earnings of an organization.

1.6. Significance of the Study:

The recent study has significance in a different context. First, the study highlights the explanatory power of each theory in the South Asian context, and at the same time, compares their explanatory powers. This helps researchers to identify the most influential role of any theory in the context of a firm's reported earnings quality. Second, the study regresses these theories separately with control variables that help the researcher to identify the power of each theory in explanting firms' reported earnings quality. Third, the political connection is one of the main dilemmas of Asian firms that are often associated with their poor performance or unethical behavior because it shelters them against punishments. Further, government influence also entails self-centered decisions like earnings manipulation with reduces the reported earnings quality of the firms. It is also tested through two different variables (political connections and political affiliation) So far, researchers have used political connection and political affiliation as terms interchangeably. In the current study, both terms are differentiated. Accrual-based earning management is ignored; only real management is considered by Rong Ding in his research. (Ding et al., 2018).

1.7. Research Contribution:

As its significance suggests, the study has several very important contributions. First, the study provides novel evidence referring to the explanatory power of different theories (Agency Theory, Stewardship Theory, Social economics theory, and Political theory) in firms' reported earnings quality. In the South Asian context, information asymmetry prevails that allows management to follow their discretion. Thus, the current study highlights the most influencing theory that explains its relationship with firms' reported earnings quality. It also helps researchers to frame the background for each variable rather than testing its direct relation with firms' reported earnings quality. Second, the study also provides shreds of evidence for policymakers to frame their policies, so that either unethical practices should be avoided, or ethical practices must be promoted. In the light of findings, policies can be implemented to restrict a management discretionary action that harms shareholders' wealth in the long run. Third, it politely timely evidence in the context of earnings quality, as the world has witnessed global financial crises due to management discretion of information asymmetry or governance failure. Forth, the study provides evidence for shareholders to take certain measures to improve the reported earnings quality of their firms and other likely outcomes. Shareholders can reduce political influence or appoint more gender on their corporate board to improve the efficiency of the corporate board in restraining earnings manipulations.

CHAPTER 2

LITERATURE REVIEW

2. Overview of Literature:

Chapter 1 describes in detail the background to the problem being examined in this thesis and sets out the study aims and objectives. This chapter addresses the first research objective and provides the theoretical basis for the study. It covers the review of literature for literature.

2.1. Theoretical background:

Theory of earning management and what is earnings quality. The difference in earnings management and earnings quality

2.1.1. Agency Theory:

Propagated by (Hellwig, 2009), the theory maintains that problem exists due to conflicting interests of the investors and the managers. The study examines the effects of corporate governance, board characteristics, and the impact of internal audit functions on earning quality. The study seems motivated by three factors. I.e. internal audit function quality (Bagais & Aljaaidi, 2020), policy based on developed market (Doidge et al., 2007), and corporate governance mechanisms with rather inchoate hypotheses.

Agency theory emphasized the opportunistic behavior of managers; Managers try to put their interests first by forgoing the interest of shareholders. As a result, the cost of solving this problem increases due to the inclusion of numerous corporate governance mechanisms and oversight systems such as auditing, budgeting, and appointing external directors on the board, as well as granting managers with both financial and non-financial rewards.. (DeZoort et al., 2002). Described the role of the board of directors in monitoring the chief executive officer and management.

2.1.2. Stewardship Theory:

This theory of governance highlights the strong objectives of stakeholders 'agreement. Motivated by the mutual goal of wealth maximization, stewards act in full harmony with shareholders' desires (Hernandez, 2012). Interactions between owners and managers over time will help to further this discussion. Using either hypothesis, the relationship between a manager and the properties he manages on behalf of the owner is evaluated. (James et al., 2017).

The basic idea of this theory explains autonomy, self-governance, and hardworking are essential to stimulate managers to accomplish corporate goals. Mangers do enormously sound in their professions when they have full authority in organizational decision-making processes and have also found that when the person in the position of CEO and chairman gains the authority and control of the board of directors better (Subramanian, 2018).

2.1.3. Socio-economic Theory:

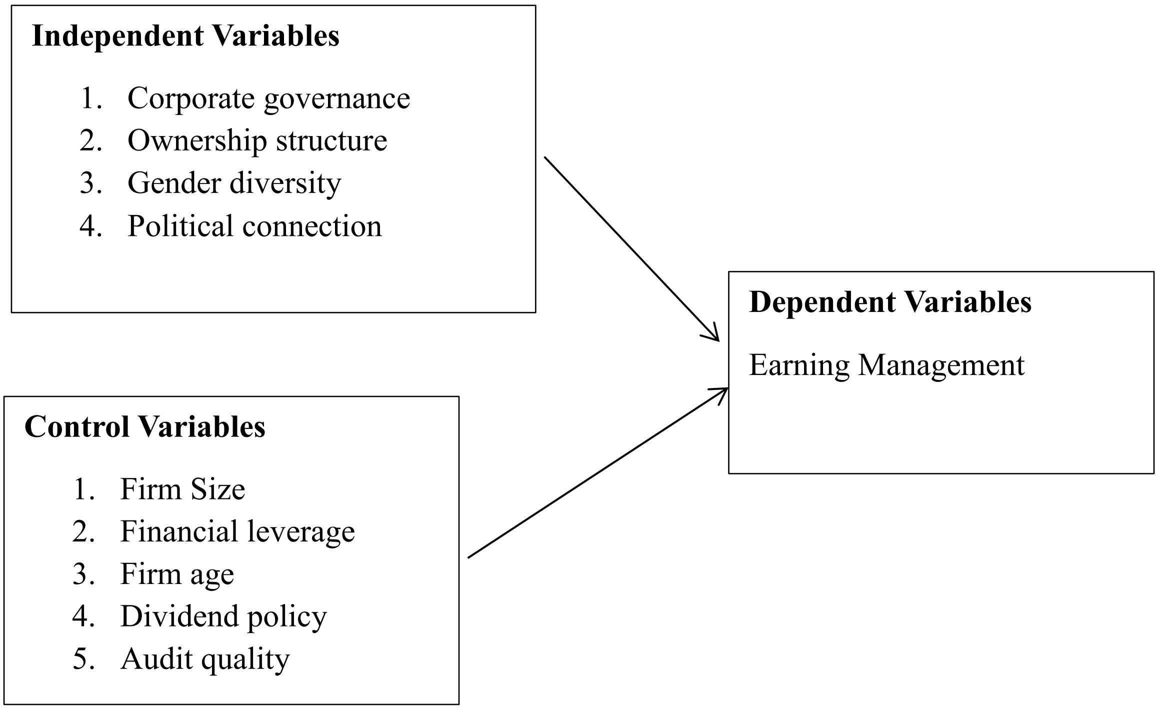
The inclusion of female directors in the Board of Governor adds a variety of viewpoints, backgrounds, and working methods enabling dialogue and efficient decision-making. One of the studies revealed that having female members on the Board of Governor led to an increase in investment, return on equity, and more revenue (Kılıç & Kuzey, 2016). Contrary to this, a study in Indonesia highlighted that female top executive representation is negatively linked to a company's financial performance (Darmadi, 2013). It was therefore concluded that maintaining a fine gender balance in an organization's top hierarchy is the defining factor in improving the financial position. The same was pressed home by Krishnan and Parsons in their research carried out in 2008 (Darmadi, 2013).

2.1.4. Political Theory:

Political theory dilates upon the importance of having adequate political linkages which then determine the growth potential of an organization. Lengthy and time taking procedural formalities are reduced to a bare minimum by using these connections besides obtaining reliefs of various types. It also provides a strong foothold enabling ingress into governmental departments which are then utilized for seeking legitimate advantage thus leading to improvement in the organization's performance. The literature consulted for obtaining a better understanding also highlights the impacts of political connections on a firm's performance (Su et al., 2014), sustainability (Faccio, 2006), Corporate Financial reporting (Faccio, 2006), etc. However, the literature has rarely examined the impacts of political connections on earning quality. It is also worth noting that the scope of seeking advantages by using political connections in developed economies with well-established structures (such as Europe, US, Canada, etc.) is far less than its role in underdeveloped economies of South Asia, Africa, and

Latin America (Ding et al., 2018) Similar studies also conclude that role of political connections remains far-off from conclusive. The negative impact of political connections on accounting quality leads to poor accounting disclosures depriving stakeholders of critical information necessary for well-informed decision making, thus ultimately impacting earning quality.

2.2. Conceptual Framework:



2.2. Earning Management and Corporate Governance:

Term earning quality and earning management are used interchangeably in different research articles. The degree of earning management normally determines the earning quality of reported figures in the financial report. Previous research has found mixed results in corporate governance and earning management (El Diri et al., 2020). On one side different authors show that board and audit committee independence is negatively associated with earning management (Mardjono & Chen, 2020). On the other hand, researchers find diverse evidence about the relationship between corporate governance structures and financial statement endorsements (Nwaiwu & Joseph, 2018). They also found a diverse connection between earning management and board characteristics.

Corporate governance is a concept of improving management performance in monitoring or overseeing management performance while ensuring management accountability to the shareholders based on a regulatory framework (Asghar et al., 2020; Mohamad et al., 2019). To achieve more transparency in corporate management for all users of the financial statements, the concept of corporate governance is proposed. When properly applied, economic growth is expected to proceed in accordance with more transparent corporate governance that ultimately benefits many parties (Anwar & Anugrah, 2015).

The nature of a company's related agency problems may be used to evaluate corporate governance performance. It was argued by different research authors that good corporate governance is needed for better access to external financing at a lower cost (Bordalo et al., 2020). Firms that have a better deal of external funding such as those that are expanding quickly firms have an inducement to upgrade their corporate governance. Additionally, according to (Benson et al., 2019), companies that have significant information asymmetry due to other aspects of their businesses may indicate to the market that they want to improve investor protection by implementing better corporate governance practices. This might be case for vast businesses, start-ups, or businesses with a sizable amount of intangible assets.

Corporate governance index was constructed to predict the power of agency theory over the other theories. In current study, the researcher has considered the four characteristics to capture the overall state of corporate governance of a company/ firm. These four-governance characteristics are the board of director, Audit committee, remuneration committee and nomination committee. The indicator variable equal to 1 for each characteristic that is presumed to reinforce the performance of the firm, 0 otherwise. Variable of corporate governance index is defined as below.

The board of directors is an important governance mechanism for aligning the interests of managers and shareholders. The board of director is further classified into four characteristics i.e. Chairman and CEO, board structure, independent of director, qualification, tenure and CEO of the firm. CEO duality is not included in classifying the board of director due the identification of mix result by the researcher (Sadiq et al., 2020)

To exercise the control over the management decision different committee has constructed i.e. Audit committee, remuneration committee and nomination committee. The purpose of the audit committee is increasing the transparency in the firms, revision of financial reports at regular interval. (Lin & Chang, 2012) found that audit committee have direct relationship with firm performance. Remuneration committee helps in deciding the remuneration for the top management of the firm. Nomination committee works for the selection of skilled candidate to become the director for the company.

The problem in studying the connection between corporate governance and earnings management is that corporate governance is endogenous and therefore likely related to indistinct business characteristics that also affect earnings management.

H1: the prediction power of the agency theory (measured by corporate governance index) is higher in reported earning quality than stewardship, socio-economic and political theories in the South Asian context.

2.3. Institutional Ownership/family ownership and Earning Management:

Institutional investors have a tremendous motivation to learn everything they can about the companies in which they have or plan to invest. Furthermore, as the degree of investment increases, so does the degree of incentive. Large ownership is likely to cause organizations to pay close attention to potential profit manipulation and associated policy actions (Mitra et al., 2002).

According to some schools of thought regarding the role of corporate ownership in deterring earnings management. Institutional investors, in the first perspective, have both the authority and the motive to limit opportunistic conduct by CEOs through earnings management techniques. Institutional investors, on the other hand, are generally more concerned with short-term profits and are uninterested in managing managers: they would rather sell their shares than monitor or remove bad management.

(Chung et al., 2002) argue that large institutional shareholders who have a large stake can deter earnings management because they have the incentive and resources to monitor it. They also note that under GAAP rules, managers may be tempted to shift profits from one accounting period to another to take advantage of bonuses or promotions using entitlements that increase or decrease. Institutional investors are often long-term investors and are discouraged from managing earnings. Their advanced level of knowledge and experience, along with their large stake in the company, reduces information asymmetry between owners and agents, making it more difficult for them to manipulate profits. (Al-Fayoumi et al., 2010). Institutional investors, according to (Bushee et al., 2014), give fewer incentives for management to decrease R&D

spending to meet short-term objectives and play a significant role in monitoring management conduct. (Lemma et al., 2018; Ilmas et al., 2018; Rajgopal & Venkatachalam, 1997) also produce results that support this viewpoint.

Institutional investors, on the other hand, are short-term focused, which some studies refer to as transitory or myopic: such owners are more concerned with present rather than long-term profitability (Bushee et al., 2014). They pay less attention to management, and if they suspect anything is wrong, they would prefer to sell their stock than fire or supervise ineffective executives (Driss et al., 2021; Coffee Jr, 1991).

A family-owned firm is controlled and managed by family members (Anderson et al., 2012). Family businesses are distinct in that they have been held by the same family for a long time and the family associates its reputation with the company (Chen et al., 2013), giving the corporation an added incentive to avoid the unfavorable press. The dynastic motivation is the most significant factor in maintaining the firm's reputation (Miroshnychenko et al., 2021).

When there is a high level of family ownership, there is a significant danger of self-interest being pursued, which means that management entrenchment or expropriation may drive controlling shareholders to maximize their benefits at the expense of other shareholders at some time. Surprisingly, controlling shareholders may find it more helpful not to take out management digressions at this stage.

Both family and non-family businesses have a proclivity for-profit management. The fundamental reasons, on the other hand, are completely different. While earnings management in publicly traded companies is primarily motivated by a desire to smooth earnings and influence management remuneration, the primary motivation in family-owned businesses is to maintain ownership of the company, i.e. to avoid breaching covenant agreements (Calabrò et al., 2020), and to provide consistent dividends.

H2: the prediction power of the stewardship theory (measured by family and institutional ownership) is higher in reported earning quality than an agency, socioeconomic and political theories in the South Asian context.

2.4. Political Connection and Earning Management:

There are two types of politically connected people i.e. past work experience in the government and second is the membership in the government-related organization (Fan, 2017; Vu, 2021).

Increasing management remuneration, satisfying contractual requirements (e.g., debt covenant), and meeting investors' earnings expectations are among the major incentives for earnings management (Wells & Scott, 2018). The latter two incentives are interlinked, as they are both connected to the firm's capital cost. Firms can raise cash in two ways: through debt or the stock market. To borrow money from a bank, businesses must prove that they have a high chance of repaying the loan. Firms must still declare high earnings after receiving funding from banks to fulfill loan contract criteria for business profitability and avoid the risk of breaking debt covenants. Firms that wish to raise money from the stock market must also disclose good results to attract more investors and lower their cost of capital.

There is evidence that political ties can assist businesses in obtaining funding from banks and lowering their capital expenses (Rasoli et al., 2021). Because the government controls most banks, the nexus between bank money and political ties is stronger in underdeveloped. According to (Li et al., 2021) politically connected CEOs can assist businesses in obtaining loans from banks or other organizations. Non-SOEs with politically linked board directors may obtain external financing more easily than their non-connected competitors, according to (Liu & Ying, 2019).

Firms with political ties have the easiest access to additional sources of finance and other benefits via their network (Ghonji et al., 2020). On the director-political relationship, there are two opposing viewpoints. The first proponent contends that political ties provide an incentive to manipulate the reported results, resulting in poor earnings quality (Jaffar & Abdul-Shukor, 2016). While some other research claims that politically linked firms profit economically and financially as a result of their government connections (Al-Hadi et al, 2018).

According to (Abubakar et al., 2021), Politically linked companies, receive preferential treatment in terms of lower taxes, easier access to bank loans, raw materials, and less regulation. In Nigeria, it was discovered that 54 percent of the business has political ties. According to the political connection theory, a firm's political link can affect its performance level (Pratama, 2017; Wahab & Holland, 2012) finds in his research that politically linked directors might result in low earning quality and increased agency problems.

H3: the prediction power of the political theory (measured by government ownership and board affiliation) is higher in reported earning quality than agency, stewardship, and socio-economic in the South Asian context.

2.5. Socio-economic theory and Earning Management:

As per research in economics and psychology, women are more risk-averse and careful in their financial decisions than males. (Barua et al., 2010; Umer et al., 2020) analyzed the financial and investment decisions made by female and male leaders in the workplace and found evidence that males are more confident in major corporate decisions than women.

In their view of ethical business issues, empirical data also reveals that women exhibit higher ethical behavior than males at the corporate level (Larkin et al., 2012; Schäpers et al., 2021). These gender theories back up the idea that having more women on corporate boards enhances the quality of reported results and reduces earnings management.

(Acar, 2021; Thiruvadi & Huang, 2011) discovered consistent evidence that the inclusion of a female director on the audit committee constraints accrual-based earnings management when it comes to the engagement of female board members on certain board committees. Female directors are proven to have a substantial impact on financial reporting quality and contribute significantly to the effectiveness of corporate governance.

Researchers using the data of European companies and US companies have found that board gender diversity mitigates the effect of earning management in countries where gender diversity is high (Ramadan, 2021). In another research, researcher reveals that the female working as a director in board enhance boards' monitoring ability and reduce the frequency of Financial reporting errors and fraudulent activities in the case of US index companies (Knežević & Pavlović, 2021; Ullah et al., 2020) in his research concluded that earning management decline when the number of female directors in board reach three or more in the US holding companies. Other studies have also revealed that the presence of female directors on board has negative relation with earning management (Gull et al., 2018; Okoyeuzu et al., 2021). In the contrast to the above studies (Kyaw et al., 2015; Umer et al., 2020) have found that the presence of female CEO and gender diversity in the board has no impact on earning management. Based on the theoretical framework and findings of most previous research, female CEO and gender diversity have higher reported earning management.

***H4: the prediction power of the socio-economic theory (measured by gender diversity and female CEO) is higher in reported earning quality than agency, stewardship, and political theories in the South Asian context*.**

2.6. Control Factor:

2.6.1. Firm Size:

Contrasting viewpoints regarding firm size have come to the fore while assessing its impact on earning management. The first viewpoint establishes a negative impact of firm size on the financial outlook of the organization as bigger the size more the variables, hence affecting the firm's overall performance (Ibhagui & Olokoyo, 2018). Issues like efficient internal control systems, reliable audit services, managing human resources, etc. create a drag on the smooth functioning and subsequent growth of the organization. On the contrary, the other viewpoint is supportive of the belief that a bigger firm doesn't negatively influence the growth of an organization. Emplacement of better control systems, fully functional organizational hierarchy, availability of diverse opinions, and incentives for growth are positive attributes towards a firm financial outlook.

2.6.2. Firm's Age:

Firms created a long time ago thrive on an established structure that has evolved into profit-making entities. Companies who have been in the industry for a long time have better earning potential because they are well-known, have a strong name to uphold, have a high market share, and are mindful of the laws that regulate their operations. A flip side of this is the efforts required to maintain the name and its value and ensure market competitiveness. Recently established companies, on the other hand, possess lesser expertise, a smaller financial base to operate from, and evolving financial management processes that are prone to mistakes and follies over time (Medase, 2020).

2.6.3. Financial Leverage:

The level of financial leverage available with a company determines its ability to regulate its finances. A company with a stronger financial position can invest in diverse portfolios, take risks and make bold decisions. Similarly, it has the space available to manipulate its financial relationships with banks at rates/terms acceptable to it. Hence it creates an overall flexible financial environment enhancing the growth potential and ensuring better earning management. This also allows the managers to use voluntary accounting adjustments to boost profits and potentially prevent debt covenant breaches (Detthamrong et al., 2017). On the other hand, a firm with lesser or no financial leverage is always likely to play hostage to its financers like commercial banks and the other stakeholders. This leaves limited space for exploiting the better earning management avenues ultimately affecting the growth potential.

2.6.4. Dividend Policy:

Dividend policy is also categorized as one of the control factors. A higher dividend policy will reduce the revenues and profit margins available with the company, however, it will also attract more investments. This increase in investment will lead to the availability of more liquidity which will facilitate investment in other portfolios. A higher dividend policy also acts as a catalyst for greater investor confidence. According to The Signaling theory (Taleb, 2019), it is also worth mentioning that a loose dividend policy is likely to impact the earning management as adjustments are to be made by decreasing the payout ratio. The Policy that keeps the payout ratio higher is likely to lead to risky accounting decisions.

2.6.5. Auditor Quality:

An external audit aims to ensure the accuracy and transparency of financial statements. The auditor's most basic appraisal is of the client's survival and willingness to sustain operations. Researchers discovered that big auditors' firms provide higher-quality audits than relatively smaller auditors. Because of their qualifications, preparation, and practice as well as their independence and strong credibility, Big-4 auditors are thought to be more qualified than the other auditing firm. Empirical studies on audit efficiency, especially after Sarbanes-Oxley (Williams, 2018), show that there is a strong and negative association between accrual abuse and Big vs. non-Big auditors. The Big 4 audit companies had fewer discretionary accruals. Furthermore, businesses that are not audited by a member of the 'Big Four' have a higher degree of discretionary accruals. When it comes to the impact of audit efficiency on earnings control, several analysts have discovered that the size of the auditor has a favorable impact on revenues. Meanwhile, other studies have discovered that the auditor's size harms the RE.

CHAPTER 3

RESEARCH METHODOLOGY

3. Overview of research Methodology:

3.1 Introduction:

The research design enables the researcher to logically and unambiguously approach the problem through evidence; it is the logical and coherent integration of the various components of the study to ensure that the research problem is approached effectively; it is a snapshot of activities such as collection, measurement, analysis, and reporting.

3.2 Research Methodology:

The purpose of our study is about the relationship of corporate governance, political connection, and ownership structure, and gender diversity on earning management. Our methodology consists of seven variables that are and earning management, corporate governance index, political connection, family ownership, Institutional ownership, gender diversity, and female CEO.

3.3 Methodological Choices:

This study is quantitative, and a statistical method will be utilized to collect the data which will be primary.

3.4 Data Collection:

The sample includes non-financial companies that are listed on the stock exchange of South Asian countries i.e. Pakistan, India, Bangladesh, Sri Lanka. We excluded financial firms such as insurance companies, securities firms, and banks because these firms adhere to their own accounting rules and their financial statements are not identical to non-financiers. The final sample included 597 companies, and the data is collected for the 11-year from 2008 to 2018.

The annual financial statements of these companies were audited. After eliminating companies with missing values, we have 5970 observations for each variable.

3.5 Data Analysis:

Balance Panel data analysis is used as the econometric analysis technique. The effects of the cross-sections and time-series dimensions are both used in the balance panel data analysis (Faisal, 2021; Wooldridge, 2010). According to (Tran, 2020), panel data has the advantages of reducing the multi-collinearity problem and providing a high level of significance. To eliminate any outliers in our data, data will be reduced at the 1 and 5% level of significance Data is collected from Data Stream, Forex of Countries, and Annual report published by firms.

3.6 Measurement of Dependent Variable (Earning Management):

Distinguished scholars endorse that managers are accrual normally to control earnings, due to the fact accruals are difficult to discover by using outside stakeholders (Callao et al., 2017). Moreover, income may be managed through short or lengthy-term discretionary accruals (T. Arun & Kamath, 2015; Becker et al., 1998) advocate that managers have extra discretion over a quick-time period or modern-day accruals than over long-term accruals using the changed Jones version (Matteo & Francesco, 2018), that broadly used to degree contemporary discretionary accruals (T. G. Arun et al., 2015) we estimate contemporary accruals by the use of the crosssectional regression equation underneath:

$$\frac{CA_{it}}{A_{it-1}} = \beta_{it}\left(\frac{1}{A_{it-1}}\right) + (\Delta sales_{it} - \Delta TR_{it})/A_{it-1}) + \varepsilon_{it} ------1$$

CA_{it} stands for current accruals, measured as net income before extraordinary items minus operating cash flow, A_{it-1} represents total assets at the start of each year, $\Delta sales_{it}$ is the change in sales, and $\triangle TR_{it}$ is the change in trade receivables. The residual (ε_{it}) of the equation is current discretionary accruals (CDA), i stand for firm and t stand for the year.

3.7 Measurement of Independent Variables:

3.7.1 Corporate Governance Index:

To examine the characteristics of governance in firms working in South Asian countries, a corporate governance index is constructed using the principal component technique for four characteristics of the board of directors that includes board structure, chairman of the board, independent director, qualification of director, tenure of director and CEO of the firm. The governance index also includes the remuneration committee, audit committee, and nomination committee. These all characteristic of corporate governance is further divided into three to four characteristic that includes the presence of committee, financial expertise, chairman of the committee. (M. N. Khan et al., 2018)

$$CGI_{i,} = Ten_{i.t} + Qal_{i,} + RC_{i,} + AQ_{i,} + NC_{i,} + \varepsilon_{it} - - - - 1$$

Where CGI_{it} is corporate governance index, measured by adding Tenit denotes tenure of board members, Qal_{it} is the qualification of board members, RC_{it} is the remuneration committee; AQ_{it} is the audit committee, and NC_{it} Nomination committee of corporate governance. The residual (εit) denotes the general error. The subscripts i and t stand for firm and year.

3.7.2 Gender Diversity & Female CEO:

To examine the impact of gender diversity on earning management three different proxies are used (Türegün, 2018). First, the presence of a female on the board of directors is a dummy variable that takes a value of 1 if at least a female is present aboard. Second, the number of females performing as a director on board is measured by the presence of total numbers of females on board (Orazalin & Mahmood, 2018). For measuring the female CEO, the researcher used a dummy variable that takes the value of 1 for a firm having female CEO and a firm having no female CEO is considered as 0. (Byoun et al., 2016).

3.7.3 Family ownership & Institutional Ownership:

To examine the explanatory power of socio-economic theory on earning management, two variables are constructed i.e. Family ownership (Becker et al., 1998) and institutional ownership (Cardinaels et al., 2021). FO was measured as the proportion of shares held by

Family members and IO was defined as the proportion of shares held by the institution.

3.7.4 Political Connection:

Political connection is peroxide as the proportion of politically connected directors to the total size of the board. A director is considered politically connected if he or she is (current or former) a member of parliament, minister commissioner, head of the political party, or head of state (Latif & Al-Dhamari, 2020).

3.8 Measurement of Control Variables:

Control variables are used in the model to account for the potentially confusing effects of specific firm characteristics that may affect earning management. These control variables are: Financial leverage (LEV), calculated as total debts divided by total assets; firm Age (Huse et al., 2009), measure as the number of years since the company was incorporated; firm size (SIZE), measured as the natural logarithm of total wealth; and Audit Quality (AUDIT), measured as a dummy variable that takes the value of 1 if firms are audited by the Big Four, 0 otherwise. Previous studies have shown that these firm-specific properties are useful for the earning management.

3.9 Correlation Matrix:

A correlation matrix is merely a table that shows the correlation coefficients for diverse variables. The matrix depicts the correlation between all the probable pairs of values in a table. It is an effective tool to summarize a bulky dataset and to find and visualize designs in the given statistics. A correlation matrix includes rows and columns that display the variables. Each cell in a table contains the correlation coefficient.

3.10 Descriptive Statistics:

Descriptive statistics summarize and establish characteristics of a data set. A statistics set is an assortment of responses or observations from a model or entire population. In the quantitative examination, after collecting facts, the first step of statistical scrutiny is to describe characteristics of the responses, such as the average of one variable (e.g., age), or the relation between two variables (e.g., age and creativity). The next step is inferential statistics, which assist in deciding whether your data confirms or refutes your hypothesis and whether it is generalizable to a larger population.

3.11 Variance Inflation factor:

The Variance Inflation Factor (VIF) measures the severity of multi-collinearity in regression examination. It's far a statistical perception that shows the rise in the variance of a regression coefficient due to collinearity. In ordinary least square (OLS) regression examination, multi-collinearity exists when two or more of the independent variables determine a linear connection between them. As an instance, to scrutinize the connection of firm sizes and revenues to stock prices in a regression model, marketplace capitalizations and revenues are the independent variables. A corporation's market capitalization and its total revenue are strongly correlated. As a firm earns growing revenues, it also grows. It leads to a multicollinearity problem in the OLS regression analysis. If the independent variables in a regression model show a perfectly predictable linear relationship, it is known as perfect multicollinearity.

3.13 Empirical Model:

For determining the value of R-square, the study will regress the following equation. Higher R-square determines better explanatory power and vice versa. The following equation will be used for analysis purposes.

$$EM_{i,} = \alpha_0 + \beta_1 CGI_{i,} + \beta_2 Age_{i,} + \beta_3 Size_{i,} + \beta_4 lev_{i,} + \beta_5 AQ_{i,} + \beta_6 DP_{\ i,} + \varepsilon_{it}$$

$$----1$$

To measure the impact of EM (earning management) on corporate governance index taking the other variable constant i.e. Age (Firm Age), Size (Firm Size), lev (Financial leverage), AQ (Audit Quality), and DP (Dividend Policy) and ε are general error terms in the data.

$$EM_{i,} = \alpha_0 + \beta_1 FO_{i,} + \beta_2 IO_{i,} + \beta_3 Age_{i,} + \beta_4 Size_{i,} + \beta_5 lev_{i,} + \beta_6 AQ_{i,}$$

$$+ \beta_7 DP_{\ i,} + \varepsilon_{it} ----2$$

Instead of CGI FO (Family ownership) and IO (Institutional Ownership) is used to measure the impact of EM and all other variables are same as used in eq 1

$$EM_{i,} = \alpha_0 + \beta_1 GD_{i,} + \beta_2 FemaleCEO_{i,} + \beta_3 Age_{i,} + \beta_4 Size_{i,} + \beta_5 lev_{i,}$$

$$+ \beta_6 AQ_{i,} + \beta_7 DP_{i,} + \varepsilon_{it} - - - - 3$$

Instead of CGI (Corporate Governance index) GD (Gender Diversity) and Female CEO is used to measure the impact of EM and all other variables are same as used in eq 1

$$EM_{i,} = \alpha_0 + \beta_1 PCon_{i,} + \beta_3 Age_{i,} + \beta_4 Size_{i,} + \beta_5 lev_{i,} + \beta_6 AQ_{i,} + \beta_7 DP_{i,} + \varepsilon_{it}$$

$$- - - - 4$$

Instead of CGI (Corporate Governance index) PO (Political Connection) is used to measure the impact of EM and all other variables are same as used in eq 1

CHAPTER 4

ANALYSIS AND DISCUSSION OF RESULTS

4. Overview of research Methodology:

This chapter presents the data collected from the listed firms of Pakistan Stock Exchange PSX; National Stock Exchange of India NSE, Colombo Stock Exchange CSE, Dhaka Stock Exchange DSE, and data extracted through "Thomson Ruther Data Stream" and processed through EViews to answer the research questions. The Results and findings of the earning management, corporate governance, ownership structure, gender diversity, and political connection are introduced in classified structure and afterward interpreted. In this part, the researcher discussed the examination of variables using descriptive statistics, correlation, and regression among the variables. Also, the research discoursed, the results and their interpretation of whether the independent and dependent variables are related. Moreover, do the independent variables influence the dependent variables or not? This chapter examines the relationships between the variables.

4.1 Descriptive statistics:

The average value of the variables is represented through mean and dispersion from the mean value is called or represented bystander deviation. In table 1, Mean and SD values represent the averages and variance exclusively between the dependent variable, independent and control variable for the impact of earning management with the assistance of Control variables.

Table 4.1 Descriptive Statistics of Variables

	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Probability	Observations
EM	26.323	26.246	47.985	-30.447	19.256	1.461	0	5797
CG	16.551	17	46	11	1.8	0.876	0	5797
FO	0.504	0.545	0.885	0	0.263	-0.319	0	5797
IO	0.167	0.084	0.749	0.001	0.147	1.078	0	5797
POLC	0.466	0	1	0	0.499	0.136	0	5797
GD	0.85	1	1	0	0.357	-1.96	0	5797

FCEO	0.072	0	1	0	0.258	3.324	0	5797
FL	1.733	1.71	2.21	1.392	0.156	0.287	0	5797
DPS	10.44 6	0.73	14.6	0	31.589	8.794	0	5797
FA	47.53 3	48	57	37	4.379	-0.096	0	5797
MP	2.218	0.004	19.604	0	3.195	1.561	0	5797
MTB	4.861	1.37	221.2	-6.68	11.591	6.527	0	5797
SIZE	6.849	6.604	11.309	2.569	1.315	0.872	0	5797

As shown in table 4.1, the mean value of EM has a mean value of 26.32% with a minimum of -30.47 to a maximum of 47.985, which provided evidence that the South Asian firms manage their reported earnings. The corporate governance variable showed that on average South Asian firms have high levels of corporate governance index, the mean value of 16.551%. Ownership Structure i.e. family ownership, institutional ownership has a mean value of 0.504 and 0.167. Gender diversity and Female CEOs have average values of 0.850 and 0.072 with max and min values of both the variables lying between 1.00 and 0.00. A political connection has an average value of 0.466. Furthermore, control variables i.e. financial leverage, firm size, firm age, market power and MTB of south Asian firms have mean values of 1.73, 6.849, 47.00 2.248, and 4.861.

4.2 Correlation Analysis:

Correlation analysis was used to measure the presence of a relationship between a dependent variable and an independent variable and the role of control. Moreover, the

Pearson connection is generally used to analyze the linear association. Also, its worth lies between - 1 and +1 (Bluman, 2009; Cigna et al., 2017; Dai et al., 2018). If there's a rise in one variable resulting in to rise in another one, then it's called a correlation. On the other side, if there's a rise in one variable resulting in a decrease in another variable then it's called indirect correlation. Whereas, if there's no association among two variables then it's called zero or no-correlation. The correlation was used to measure the connection between two or more different groups of variables. The fundamental reason for applying correlation analysis is to identify the direction of different variables arrayed in the research. Other estimations do not give any indication about the relationship that exists among different variables of investigation. Correlation analysis is additionally accustomed to examining the direction of various variables in direct or indirect association and it may not have any value of zero relationships (El Diri et al., 2020). Furthermore, negative quantities establish the degree to which an increase in one of the variables establishes the modification in other. This study also pragmatic correlation results to judge the connection between the proposed relations. Commonly Davis's references are utilized to determine the connection coefficient, as the most recognized strategy, to measure the dependence. The estimations values run from - 1.00 to +1.00, within which +1.00 establishes positive or direct linking, while negative depicts indirect relationship among the variables. In the case of 0, it indicates that there is no connection between the variables.

Table 4.2 Correlations Analysis of variables

	EM	CG	FO	IO	POLC	GD	FCEO	FL	DPS	FA	MP	MTB	SIZE
EM	1	0.021	0.0105	0.0095	-0.0099	0.0552	0.0149	0.005	-0.0381	0.0743	0.2018	-0.0024	0.0135
CG		1	0.0137	-0.0238	0.0029	0.0215	0.0504	0.3626	0.0284	0.0303	0.1524	-0.1329	0.107
FO			1	-0.074	0.0475	0.0159	0.0001	0.0124	0.0014	0.0028	-0.006	0.0062	0.0454
IO				1	-0.0166	0.0161	-0.0073	0.0138	-0.0117	0.038	-0.1189	0.0874	0.0144
POLC					1	-0.014	0.0008	0.0146	-0.0194	-0.0072	-0.0051	0.0049	0.0034
GD						1	0.0174	0.0241	0.0208	0.3544	-0.0194	0.0431	0.0466
FCEO							1	-0.0048	-0.0397	-0.0499	-0.0116	-0.0275	0.0307
FL								1	-0.0048	0.0179	0.0358	0.0047	0.0075
DPS									1	0.0394	-0.0978	-0.0288	0.3518
FA										1	-0.0389	0.065	0.0745
MP											1	-0.1659	-0.2332
MTB												1	-0.0409
SIZE													1

The result described in table 4.2 shows correlations analysis between dependent variable Earning management with independent variables corporate governance index, family ownership, institutional ownership, gender diversity, Female CEO, political connection and Control factor i.e. Firm Size, Firm Age, Dividend payout ratio, Financial Leverage, and market power. Below is the description of each variable individually.

Using correlation technique, the research found that the IV, i.e. corporate governance, Gender Diversity, and Female CEO all are significantly correlated with DV, i.e. earning management which shows that corporate governance, Gender Diversity, and Female CEO is significantly related to firm earning management The IV, i.e. Institutional ownership and control factor Financial leverage is insignificantly correlated with DV, i.e. Firm earning management (Asghar et al., 2020) (r = 0.0095 & 0.0050). The above results also show that the IV, i.e. Political connection and control factor dividend payout ratio and MTB has negatively correlated to firm earning management.

Table 4.3 Standard Multiple Regression Result

MODEL 1				
Variable	β	Std. Error	t-Stat	Prob.
EM	0.79	0.02	34.18	0
CG	-0.18	0.1	-1.78	0.08
DPS	-0.01	0	-2.73	0.01
FA	0.11	0.04	2.47	0.01
FL	-0.86	0.97	-0.89	0.37
MP	0.59	0.12	4.91	0
MTB	0.01	0.01	0.92	0.36
SIZE	0.52	0.18	2.91	0
C	2.67	2.51	1.06	0.29
R-squared	0.38			
Adjusted Rsquared	0.35			
F-statistic	904.73			
Prob(F-statistic)	0			
Durbin-Watson stat	2.54			

4.3 Main Findings

In the first stage, the study aims to investigate the value of R-square to test the first four hypotheses. In the first four hypotheses, the study used four different theories to test their predictive power in explanation their role in earnings management. The results of the main regression are presented in table 4.3 below, as the study mainly aims to test the predictive power (value of R-square), the study regressed four different models. In each model, control factors are included so that endogeneity concern is addressed. Further, the lag of the dependent variable is also included to test the predictive power. In model 1, which represents corporate governance theory, the study finds CG as a negative and significant predictor of earnings management **(β=0.1817 and p<.10; refer to table 4.3 and model 1)** (Asghar et al., 2020). This shows that the presence of a high-quality governance mechanism ensures fewer earnings management which ultimately improves reported earnings quality. This reduces information asymmetry between management and external stakeholders. Further, corporate governance also plays a significant role in protecting shareholder's rights by overseeing corporate board activities and constraining managerial discretions. Likewise, a good corporate governance mechanism also improves the accountability of management that results in better-reported earnings through a reduction in earnings management. This is also in line with earlier studies (Al-Haddad & Whittington, 2019; Waweru & Prot, 2018). Importantly, the value of R-square is 0.3791. R-squared (R2) is a statistical measure that represents the proportion of the variance for a dependent variable that's explained by an independent variable or variables in a regression model. So, when the value of R2 of a model is 0.3791, then 37.91% of the observed variation can be explained by the model's inputs.

MODEL 2				
Variable	β	Std. Error	t-Stat	Prob.
EM	0.79	0.02	34.25	0
IO	-0.17	0.05	-3.13	0
FO	-0.4	0.09	-4.32	0
DPS	-0.01	0	-2.7	0.01
FA	0.1	0.04	2.38	0.02
FL	-1.6	0.97	-1.66	0.1
MP	0.58	0.12	4.83	0
MTB	0.01	0.01	1.1	0.27
SIZE	0.48	0.17	2.76	0.01
C	1.32	2.41	0.55	0.59

R-squared	0.58
Adjusted Rsquared	0.56
F-statistic	803.35
Prob(F-statistic)	0
Durbin-Watson stat	2.54

In model 2, the study introduced two measures of ownership (family ownership and institutional ownership) and findings are also reported in above table. As per findings reported in the table, IO (institutional ownership) has a negative and statistically significant impact on earning management in south Asian countries **(β=-0.1697 and p<.01; refer to above table and model 2)**. This implies that a high level of institutional ownership reduces earnings management through their active participation in management. Their strong and significant impact is attributed to their proactive role in the management and their involvement in firm policies. At the same time, they also serve as a watchdog of board activities and align the interest of all stakeholders by construing managerial power as attributed by their negative role in earnings management. Their role is similar to earlier studies reported in the western context (Kumala & Siregar, 2020; Shahzad et al., 2017). The second variable of ownership structure is family ownership which also plays a significant and negative role in constraining earnings management in south Asian firms **(β=-0.3975 and p<.01; refer to above table and model 2)**. In terms of coefficient estimate, family ownership has a 22.78 % (subtracting coefficient of institutional ownership from family ownership **β= -0.1697 – (-β=-0.3975) =0.2278)** higher coefficient value than institutional ownership. In south Asian countries, family ownership is one of the main variables of concern as most of the successful firms in these countries are family-owned firms. The finding is like earlier findings. This is also in line with earlier studies (Oktaviyani & Munandar, 2017). Importantly, the value of R-square is 0.5789 R-squared (R2) is a statistical measure that represents the proportion of the variance for a dependent variable that's explained by an independent variable or variables in a regression model. So, when the value of R2 of a model is 0.5789, then 57.89% of the observed variation can be explained by the model's inputs.

MODEL 3				
Variable	β	Std. Error	t-Stat	Prob.
EM	0.79	0.02	34.24	0
GD	0.69	0.27	2.49	0.01
FCEO	0.35	0.77	0.46	0.65
DPS	-0.01	0	-2.73	0.01
FA	0.09	0.04	2.02	0.04
FL	-1.61	0.97	-1.66	0.1
MP	0.57	0.12	4.83	0
MTB	0.01	0.01	1.13	0.26
SIZE	0.48	0.17	2.73	0.01
C	1.49	2.43	0.61	0.54
R-squared	0.18			
Adjusted Rsquared	0.17			
F-statistic	803.72			
Prob(F-statistic)	0			
Durbin-Watson stat	2.54			

In model 3, the study presented two measures of Social-economic theory (Gender diversity and Female CEO) and findings are also reported in above table. As per findings reported in the table, GD (gender diversity) has a statistically significant impact on earning management in south Asian countries **(β=0.6854 and p<.10; refer to above table and model 3)**. This implies that gender diversity has an impact on firms earning management (Damak, 2018). The result shows that female representation in the companies/ firms has an impact on earning management. The firm has better earning management when there is gender diversity in the firm. Further, the study also reveals that gender diversity in the board of directors has better performance of the firm. In another word, they are strongly attributed to the protective role in the management and their role involvement in firm policies (Zalata et al., 2018). Their role is as much similar to earlier studies conducted in developed economies or emerging economies (Zhang et al., 2020). The second variable of social-economies theory is female CEO which plays an insignificant role in constraining earning management in south Asian firms. The firm having female CEO has no impact on earning management **(β=0.3546 and p<.01; refer to above table and model 3)**. In terms of coefficient estimate, gender diversity has 33.08% (subtracting coefficient of female CEO from gender diversity **β=0.6854 – (-β=0.3546)**

=0.3308) higher coefficient value than female CEO. Importantly, the value of R-square is 0.1790 R-squared (R2) is a statistical measure that represents the proportion of the variance for a dependent variable that's explained by an independent variable or variables in a regression model. So, when the value of R2 of a model is 0.1790, then 17.9% of the observed variation can be explained by the model's inputs (Abdullah & Ismail, 2016).

MODEL 4				
Variable	β	Std. Error	t-Stat	Prob.
EM	0.79	0.02	34.27	0
POLC	-0.17	0.26	-0.64	0.52
DPS	-0.01	0	-2.76	0.01
FA	0.1	0.04	2.39	0.02
FL	-1.58	0.96	-1.64	0.1
MP	0.57	0.12	4.82	0
MTB	0.01	0.01	1.13	0.26
SIZE	0.48	0.17	2.77	0.01
C	1.49	2.41	0.62	0.54
R-squared	0.38			
Adjusted Rsquared	0.34			
F-statistic	903.94			
Prob(F-statistic)	0			
Durbin-Watson stat	2.54			

In model 4, which represents political connection, the study finds POLC has negative and significant predictors of earnings management **(β=-0.1652 and p<.10; refer to above table and model 2)**. This shows that politically connected people have an impact on firms earning management. The β value also indicates that those politically connected firms suffer from a decline in value when their relevant politician are dismissed from their services. Furthermore, loss of political connection will impact earning management i.e. **16.52% as shown in model 4**. This is also in line with earlier studies (Abubakar et al., 2021). Importantly, the value of R-square is 0.3789. R-squared (R2) is a statistical measure that represents the proportion of the variance for a dependent variable that's explained by an independent variable or variables in a regression model. So, when the value of R2 of a model is 0.3879, then 38.79% of the observed variation can be explained by the model's inputs.

4.4 Research Hypothesis

H1: the prediction power of the agency theory (measured by corporate governance index) is higher in reported earning quality than stewardship, socio-economic and political theories in the South Asian context.

H2: the prediction power of the stewardship theory (measured by family and institutional ownership) is higher in reported earning quality than an agency, socioeconomic and political theories in the South Asian context.

H3: the prediction power of the political theory (measured by government ownership and board affiliation) is higher in reported earning quality than agency, stewardship, and socio-economic in the South Asian context.

H4: the prediction power of the socio-economic theory (measured by gender diversity and female CEO) is higher in reported earning quality than agency, stewardship, and political theories in the South Asian context.

In the above finding, the study has found that explanatory power of stewardship theory (measure by FO and IO) is higher in earning management as compared to agency theory (CG), political theory (POLC) and socio-economic theory (GD and FCEO) as shown in model 2 of Table 4.3 i.e. R-square value is 0.5791 or 57.91% in South Asian market. This means that socio-economic theory explains 57.91% variation in earnings management. The finding may be attributed to the higher role for family and institutional ownership in the South Asian context.

The study also found that the power of Agency theory (CG) and Political theory (PLOC), both have equal impact on earning management. i.e. R-square value of CG is 0.3791 or 37.91% and POLC is 0.3789 or 37.89%. Socio-economic theory (GD and FCEO) has no explanatory power on earning management in South Asian countries. i.e. R-Square value of a socio-economic theory is 0.1790 or 17.90%.

In conclusion, H2 accepted, other Hypothesis H1, H3, H4 are rejected.

4.5 Moderating Role of Political Connection:

Additional analysis is conducted to examine the moderating role of political connection on earning management concerning other independent variables i.e. corporate governance, family ownership, institutional ownership, gender diversity, and female CEO. Five models are constructed to examine the impact that whether PLOC can play a significant role in earning management or not. The result of moderating role of POLC is shown in table 4.4. Model 1 of Table 4.4 shows that corporate governance has a significant and negative impact on earning management i.e. -0.152 or 15.2%. When the interaction term CG*(POLC) is introduced, the impact of CG transforms into insignificant. This implies that political connection dilutes the positive impact of CG on earning management.

Table. 4.4 Moderating Role of PLOC (Regression)

	MODEL 1		
Variable	Coefficient	t-Stat	Prob.
EM (-1)	-0.0540***	-3.8083	0.0001
CG(POLC)	0.1281	0.2359	0.8135
CG	-0.152***	-4.2476	0
FO	-0.1697***	-3.128	0.0018
IO	-0.3975	-4.3156	0
GD	0.4165	0.0956	0.9238
FCEO	0.7817	0.1402	0.8885
POLC	0.39699	2.2695	0.0233
DPS	0.528	0.8122	0.4167
FA	O.1328	3.9247	0.0001
FL	-0.5636	-2.1288	0.0333
MP	0.2246	7.0538	0
MTB	0.3627	0.7335	0.4633
SIZE	-0.3957		0.769

In model 2 shows that earning management has a negative and significant impact on family ownership structure. While taking political connection as moderator the researcher examined that political connection has increased the significance of family ownership on earning management. Model 2 of the table shows that the coefficient of FO is -0.169 or -16 %, Political connection has increased the coefficient of FO from -0.16 to -0.2238 i.e. 0.6 or 6% increase.

	MODEL 2		
Variable	Coefficient	t-Stat	Prob.
EM (-1)	-0.0603	-3.5983	0.0003
FO*(POLC)	-0.2238***	-5.059	0
FO	-0.169***	-3.128	0.0018
IO	-0.3327***	-4.4046	0
GD	0.26371	0.716	0.474
FCEO	-0.3498	-0.5527	0.5805
POLC	0.5378	0.27211	0.0065
DPS	0.3539	0.6994	0.4844
FA	0.14752	0.4992	0
FL	0.11023	0.3839	0.7011
MP	0.24458	0.75028	0
MTB	0.2777	0.6789	0.4972
SIZE	0.6182	0.1951	0.0511

In model 3, which represents institutional ownership (Cardinaels et al., 2021), the research examined that IO has a negative and highly significant relation with EM. When the same IO is tested with the POLC as moderator the result shows that POLC has altered the coefficient of IO from -0.332 to -0.05. This shows that institutional ownership structure firms in south Asian countries having political connections have decreased the impact of earning management.

	MODEL 3		
Variable	Coefficient	t-Stat	Prob.
EM (-1)	-0.0566	-3.1865	0.0015
IO(POLC)	-0.0591	-0.847	0.3971
FO	-0.02164	-4.5548	0
IO	-0.332***	-4.4046	0
GD	0.3134	0.099	0.9212
FCEO	-0.5986	-0.7744	0.4388
POLC	0.37342	2.2246	0.0262
DPS	0.6919	1.3032	0.1926
FA	0.14999	5.0156	0
FL	0.3657	1.4206	0.1555
MP	0.23501	7.2962	0
MTB	-0.1624	-0.522	0.6017
SIZE	0.64601	1.7384	0.0822

In model 4, which represents gender diversity (GD), the study examined that GD has an insignificant impact on earning management. Taking POLC as moderator the study has found that PLOC has no effect on the significance of GD with earning management in south Asian countries.

	MODEL 4		
Variable	Coefficient	t-Stat	Prob.
EM (-1)	-0.0381	-2.6126	0.009
GD(POLC)	0.1307***	3.6499	0.0003
FO	-0.2152	-4.5741	0
IO	-0.3545	-4.5605	0
GD	0.3134	0.099	0.9212
FCEO	-0.194	-1.0081	0.3134
POLC	0.45143	2.6457	0.0082
DPS	0.8753	1.413	0.1577
FA	1.0086	3.42	0.0006
FL	-0.4032	-0.1503	0.8805
MP	0.240422	7.2405	0
MTB	-0.0617	-0.1327	0.8944
SIZE	0.63903	1.7296	0.0838

In model 5 of Table 4.4, the study has examined that FCEO has a negative and significant relationship with earning management. When the same variable was examined with earning management by taking POLC as moderator, the researcher found that POLC has altered the FCEO relation with earning management from significance to insignificance. The coefficient of FCEO -0.369 or 36.9% is altered from 0.605 or 60.5%.

	MODEL 5		
Variable	Coefficient	t-Stat	Prob.
EM (-1)	-0.0553	-3.4341	0.0006
FCEO(POLC)	-0.08905	-0.5167	0.6054
FO	-0.233916	-4.1459	0
IO	-0.3859	-5.3174	0
GD	-0.1192	-0.0506	0.9596
FCEO	-0.369	-1.0081	0.3134
POLC	3.3216	1.9189	0.0551
DPS	0.4534	0.9029	0.3666
FA	1.3901	4.9869	0
FL	4.4398	1.8104	0.0703
MP	0.2385	7.2391	0
MTB	-0.0719	-0.2096	0.834
SIZE	0.94052	2.9014	0.0037

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5. Overview of Conclusion:

In this chapter, the thesis presents the purpose of research, research methods, and research findings. It unfolds through the accompanying segments: study outline, a summary of findings, hypothetical implications, managerial-implication, and recommendations for future research.

5.1 Conclusion:

This study aimed to predicate the explanatory power that which theory i.e. agency theory, socio-economic theory, stewardship theory, and political theory have a strong impact on earnings management of non-financial companies/ firms listed in the South Asian market i.e. Pakistan, India, Bangladesh, and Sri Lanka. One of the previous studies revealed that having female members on the Board of Governor led to an increase in investment, return on equity, and more revenue (Kılıç & Kuzey, 2019). The study also aims to examine the impact of each theory on reported earning management. Several factors within the firm permit individuals to acknowledge and develop a firm performance with a definitive objective of further developing execution and adequacy. Firm execution can duplicate commonly through various techniques. Firm execution is a major concern. Some numerous ways and clues that can prompt firm performance, yet they are either exceptional or not non-selective the organizational environment is working to motivate organizational standards to persuade hierarchical guidelines and give instruments and courses to firm performance. The result indicates that earning management increase tediously with the proportion of ownership directors of family, indicates that manager who is more entrenched in a firm can without difficulty have an impact on corporate decisions and manipulate accounting figures in a manner that fine serves their purists. This finding is consistent with earlier research evidence on the role of dominant directors in expropriating external minority shareholders in South Asian countries. Further, our results indicate that institutional ownership plays a significant role in thwarting managers from engaging in earnings management. The research study has also concluded that the impact of corporate governance and political connection on earning managers is higher than the impact of socio-economic theory on earning management.

The study's hypotheses were either accepted or rejected. The H2 accepted, other Hypothesis H1, H3, H4 are rejected using a significance level scale with a threshold of up to 5%. The study also examines the role of political connection as a moderator to find the impact of corporate governance, Family Ownership, Institutional Ownership, female CEO, and gender diversity on earning management. The results reveal that political connection has altered or increased the significance of gender diversity and female CEO. From the result, the researcher has also concluded that by taking the political connection as moderated the role of gender diversity in board have increased and had a positive impact on earning management.

5.2 Practical Implications:

The research has strong implications for the investor, policymaker, and shareholders. This study provides practical grounds for investors and shareholders before investing in firms. The investors and shareholders are required to consider the finding of the study i.e. stewardship theory has a strong implication on earning management. The investors can invest in that firms where the steward ship theory i.e. family ownership and institutional ownership is higher as compared to other theories examined in the current study i.e. socio-economic theory studied with two variables i.e. Female CEO and gender diversity in the board. In the light of the current the investor can effectively able to elevate the acceptability of investment in the firms where is strong ownership structure. The study also provides strong implication to a policymaker that they enhanced the state policy in direction of incorporation for better earning management. The current study can benefit legislators to design policies that diminish ambiguity in revealing the outcomes of a firm's monetary and financial performance. As the study has examined that political connection effect the firms earning management, policymaker can make a strategy to discourage the political connection in the firms to increase the firm's performance.

5.3 Limitations of the Study:

Like other research studies conducted previously has a limitation, the current study has also some limitations. In the current study, the research has only taken four countries of South Asia (Pakistan, India, Bangladesh, and Sri Lanka) to predict the explanatory power of theories used in the study i.e. agency theory, stewardship theory, political theory, and socio-economic theory Researchers can reconstruct this review by comparing developed countries firms with non-developed countries firm. The study only considered two types of ownership structure are considered i.e. family ownership and institutional ownership.

5.4 Future Recommendations:

Researchers can duplicate this study in various countries with cultures or settings not the same as the South Asian region to observe and reinforce the generalizability and objectivity of the study. In the future, the other types of ownership may also be considered for further enhancement of the above study. For further enhancement of the current study, more independent variables can be used i.e. corporate social responsibility. Because of the above finding, the researcher recommends that policymakers develop an agenda that eradicates managers' supremacy over the selection of board members and other corporate verdicts that might hurt the interests of smaller shareholders.

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Appendix A

Variable definition

Corporate Governance Variable		Explanation
Board of Director	Chairman and CEO	A dummy Variable equal to 1 if the role of chairman and chief executive are not combined, 0 otherwise
	Board Structure	A dummy Variable equal to 1 if half or more of director are independent non-executive directors, 0 otherwise
	Chairman	A dummy Variable equal to 1 if the board chairman is independent non-executive directors, 0 otherwise
	Qualification	A dummy Variable equal to 1 if the board chairman is highly qualified non-executive directors, 0 otherwise
	Tenure	A dummy Variable equal to 1 if the board chairman tenure is more than 8 year as chairman, 0 otherwise
	Senior Independent Director	A dummy Variable equal to 1 if the firm has and independent non-executive senior, 0 otherwise
Board Sub-committees / Remuneration Committee	Presence	A dummy Variable equal to 1 if the company has a remuneration committee, 0 otherwise
	Structure	A dummy Variable equal to 1 if the remuneration committee has at least three independents nonexecutive director, 0 otherwise
	Chairman of remuneration Committee	A dummy Variable equal to 1 if the chairman of the remuneration committee is independent, 0 otherwise
Audit Committee	Presence	A dummy Variable equal to 1 if the company has an audit committee, 0 otherwise
	Structure	A dummy Variable equal to 1 if the audit committee has at least three independent non-executive directors, 0 otherwise
	Financial expert	A dummy Variable equal to 1 if the audit committee has at least one financial expert, 0 otherwise

	Chairman	A dummy Variable equal to 1 if the chairman of audit committee is independent, 0 otherwise
	Meeting	A dummy Variable equal to 1 if the audit committee holds at least three meeting a year, 0 otherwise
Nomination committee	Presence	A dummy Variable equal to 1 if the company has a nomination committee, 0 otherwise
	Structure	A dummy Variable equal to 1 if more than half of members of the nomination committee are independent non-executive director, 0 otherwise
	Chairman	A dummy Variable equal to 1 if the chairman of nomination committee is independent nonexecutive director, 0 otherwise
Measurement of variable	family ownership	% of share held by family in business
	Institutional Ownership	% of share held by Institution in business
	Gender Diversity	A dummy Variable equal to 1 if a firm has a female ownership in board 0, other wise
	Gender Diversity-2	A dummy Variable equal to 1 if a firm has a female ownership in board 0, other wise
	Gender Critical mass	A dummy Variable equal to 1 if a firm has a female ownership in board 0, other wise
	Political Connection	A dummy Variable equal to 1 if a firm has a political connection 0, other wise
Measurement of control variables	Financial Leverage	Total debt divided by total assets of the company
	Firm Age	Number of years since the firm is incorporated
	Firm Size	The natural logarithm of total assets of the firm
	Audit Quality	Dummy variable that takes “1” if Financial statement of the company are audited by Big Four and otherwise “0”
	Market to book ratio	Market-to-book ratio at the end of the Fiscal year before the vote

ORIGINALITY REPORT

18%	15%	7%	10%
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