Chapter 2: Literature Review

Firm Performance

Successful businesses are an important component for developing countries. Many economists compare them to an engine in terms of determining their economic, social, and political growth. To thrive in a competitive business climate, every company should function under performance-based conditions.

Firm performance has recently become a popular topic in strategic management research, and it is regularly employed as a dependent variable. Despite the fact that it is a widely held concept in academia, there is little agreement on how to define and quantify it.

However, because there is no operational definition of firm performance that the majority of experts agree on, different interpretations will naturally be proposed by different persons based on their personal opinions. This concept's definitions can be abstract, general, or narrowly defined (Taouab & Issor, 2019).

Firm performance is the end outcome of management or team operations or the total level of performance in completing a task over an amount of time. The firm's performance is also a systematic attempt made by a company to evaluate its success in creating revenues so that it may see the company's position, growth, and possibility for positive development by depending on available resources. A corporation is deemed to be effective if it meets or exceeds the defined criteria and aims (Subramanyam, 2014). Shareholders use company performance evaluation as one indication when evaluating a company based on the market value of its stocks on the stock exchange. The stronger the company's success, the greater the returns to shareholders will be. Generally speaking, investors will seek out organizations that have the greatest performance and participate in them. Organizational value is examined in this research through operating efficiency, namely profit ratios via ROA and leverage ratios via DER (Pernamasari et al., 2020).

The majority of businesses are trying to enhance their profitability in any manner they can. Those that strive to create, achieve, and maintain performance can hold the winning card. As a result, understanding and monitoring performance in a constantly changing environment is critical. As a result, management teams and scholars have always been interested in evaluating the performance of businesses. Furthermore, in today's economic context, quantifying business performance is a significant topic for academic researchers and practicing managers. Researchers have worked hard to come up with metrics for the concept of performance. In this regard, there is a gap in the literature and a raging dispute about the performance of businesses.

Performance of the Company Successful businesses are an important component for developing countries. Many economists compare them to an engine in terms of determining their economic, social, and political growth. To thrive in a competitive business climate, every company should function under performance-based conditions. Firm performance has recently become a popular topic in strategic management research, and it is regularly employed as a dependent variable. Despite the fact that it is a widely held concept in academia, there is little agreement on how to define and quantify it. However, because there is no operational definition of firm performance that the majority of experts agree on, different interpretations will naturally be proposed by different persons based on their personal opinions.

In the first decade of the twenty-first century, the definition of organizational performance principally focused on the capability and ability of an organization to efficiently exploit the available resources to achieve accomplishments consistent with the set objectives of the company, as well as considering their relevance to its users.

Verboncu and Zalman (2005) appreciated that performance is a particular result obtained in management, economics, and marketing that gives characteristics of competitiveness, efficiency, and effectiveness to the organization and its structural and procedural components (Taouab & Issor, 2019).

In recent years, firm performance as a measure of the influence of various capital structure proxies has yielded fresh insights. Several country-specific studies have looked at the direct impact of various forms of indebtedness on firm performance. The majority of these studies found a strong negative correlation between debt and company performance. For seven years, Chakrabarti and Chakrabarti, (2019) looked at firm-specific and macroeconomic variables in 18 Indian non-insurance enterprises. Low insurance, low input costs, low inflation rates, higher return on investment, liquidity, and profitability were all shown to be favorable. Between 2008 and 2016, Dalci (2018) looked at the influence of capital structure on 1503 listed manufacturing enterprises on the Chinese stock exchange. They discovered an inverted U-shaped relationship between capital structure and profitability, as well as the reasons of negative and positive financial leverage (as a measure of capital structure) and profitability relationships. This is a significant study that emphasized the importance of credit market policy and regulations developments for the expansion of various-sized Chinese manufacturing enterprises.

Dave et al. (2019) looked at the impact of capital structure and profitability on Indian steel companies and found a substantial negative association between long-term and short-term indebtedness as a percentage of total assets and profitability. For the years 2007–2010, Helmy et al. (2020) looked at the impact of capital structure, internal governance mechanisms, and firm performance of 183 Bursa-listed Malaysian companies. They discovered that capital structure has a beneficial impact on firm performance. Between 2014 and 2018, Gharaibeh and Khaled (2020) looked into the elements that influenced the profitability of 46 Jordanian service sector enterprises. They discovered that debt as a percentage of total assets and tangible assets had negative associations with profitability, whereas tangible size and business risk have favorable relationships.

Hussein et al. (2019) looked at listed Jordanian companies from 2005 to 2017. They discovered a positive significant relationship between firm size, asset growth, and return on assets using three measures of firm performance: return on assets, Tobin's Q and return on assets, and total and short-term debt as a proxy for capital structure. They also discovered a significant negative relationship between short-term debt and long-term debt and return on assets using three measures of firm performance: return on assets, Tobin's Q and return on assets, and total and short-term debt as a proxy for capital structure. They did not, however, detect a significant negative link between short-term and long-term indebtedness and business performance as measured by return on equity. Finally, between 2009 and 2012, Yazdanfar looked at 15,897 enterprises in five SME sectors of the Swedish economy. Debt ratios (trade credit, short-term, and long-term debts) were found to have a negative impact on company profitability.

A range of criteria were employed to define profitability in capital structure studies that looked at the relationship between different proxies for capital structure and business performance. Some studies employed a single metric, while others used a combination of metrics such as return on equity (ROE), return on assets (ROA), and return on capital invested (ROCE) (Gharaibeh & Khaled, 2020). Different forms of debts are utilized as proxies for capital structure in these research, and various control variables are used to quantify the aggregate effects on business performance. In majority of the research described above, the relationship between business performance and capital structure is believed to be unidirectional. Recent research has confirmed the causal association between capital structure and company performance. Finally, the research found a negative, positive, and mixed link between capital structure metrics and company performance in the studies above.

The studies are from a variety of industries and span a wide range of firm-year cross-sectional data. Only a few studies have looked into the relationship between various measures of business performance (or profitability) and capital structure. In the Australian and worldwide contexts, research on the services industry are barely significant. Furthermore, in the studies described above, the directional causal relationship between different forms of borrowings and business performance is rarely studied in depth. This research adds to the expanding body of knowledge about capital structure in under-researched domains of service sector enterprises in Australia and around the world.

The characteristics of service sector enterprises listed on the Australian Stock Exchange, as well as their performance (or profitability), were investigated in this article (ASX). The impact of capital structure and leverage was investigated using a panel regression approach on data collected over an eleven-year period (2009–2019). Return on assets, return on equity, operating margin ratio, and return on capital utilized were the four performance indicators considered. An examination of the data demonstrates a strong link between return on equity and borrowing levels. In these service sector organizations, leverage has a statistically significant impact on firm performance. Operating margin improves by 0.24 times for every dollar of increased leverage, return on assets decreases by 1.11 times, and return on invested capital decreases by 7.59 times (all statistically significant at the 1% and 5% levels), implying that using debt to finance operations does not benefit Australian services sector firms much. This conclusion contradicts asymmetric information theory, which claims that lower debt levels conceal poor performance (Myers 1984). They are, in fact, swamped with debt. When total assets are financed by long-term debt, the picture alters substantially. Return on assets, return on invested capital, and return on equity all improve by 0.24 times (significant at the 5% level), return on capital employed increases by 1.68 times (significant at the 10% level), and return on equity improves by 1.27

times (significant at the 5% level), indicating that the use of long-term debt adds value. The directional causality tests revealed a positive unidirectional association between leverage and operating margin, bi-directional causality with return on assets (negative) and return on invested capital, and a unidirectional (positive) causality between leverage and return on equity, as captured by the Granger causality test. A bidirectional causation was also discovered between long-term debt to total assets and operating margin, as well as a bidirectional relationship between return on assets, return on invested capital, and return on equity. The existence of unidirectional and bidirectional causation between different types of indebtedness to finance operations indicates considerable interdependencies and negative consequences of debt on Australian service sector enterprises (Ahmed & Bhuyan, 2020).

Earning management

Earnings management is defined by Copeland, 1968 (Utami, 2006) as "the same power to grow or reduce reported net revenue at will," which involves managerial efforts to maximize or minimize earnings, using earnings apparatus, in line with management goals. Earnings management is performed to sway investor perceptions, particularly in the company's shares purchase decisions.

Managers typically handle accrual income after the financial year closes, according to (Zang, 2012). Since their businesses are in such fierce competition, some executives may find it prohibitively pricey. Companies in a given industry confront varying levels of competitiveness and, as a result, experience varying degrees of stress when departing from the best business plan. As a result, since the loss of their comparative advantage is generally minimal, management of leading market companies might consider manipulating genuine activity to be less expensive.

If it is linked to a rise in the firm's worth, (Syanthi et al., 2013) stated that while there is asymmetric information, managers might send signals to investing people regarding the company's situation in order to increase the benefits of the company's equity. The indication can be conveyed through financial information disclosures (disclosure).

Moreover, (Roychowdhury, 2006) identified a number of ways for manipulating real-world activities, involving sales manipulation, increased production, and lowering the price of decision. With managers' proclivity to search their own advantages (moral risk), a good standard of asymmetric information, as well as certain intentions, the probability of management using accrual objects to introduce earnings in conformance with managerial concerns which may not be in full compliance with primary preferences, such as entrepreneur, shareholder, or creditor, is increasing.

The measuring of accruals is highly crucial to observe in order to determine if there is earnings management (Utami, 2006). The gap between earnings and cash flows from continuing operations is known as total accruals. Total accruals are separated into two categories: (1) the component that occurs naturally during the preparation of financial records, and (2) the accrual component, which is a type of financial manipulation of data known as anomalous accruals.

The original specific approach of working capital accruals was employed as a substitute for earnings management in this research. Working capital accruals are more suitable, according to research (Utami, 2006). Since discretionary accruals are much more involved, sales are utilized as a substitute for working capital accruals. The reason for this is that numerous sales accounts have earnings management. Shareholders can access additional capital accrual information directly from the financial statement of cash flows from operating processes, eliminating the need for laborious calculations.

Every action made by management to grasp income management is referred to as earning management. Recognizing earnings management as administrators' opportunistic behavior in handling the salary, debt, and political cost agreements to maximize their utility. Secondly, from the standpoint of effective contracting, earning management provides managers with the freedom to defend themselves and the firm by predicting unusual situations for the interest of all parties involved in the agreement. Discretionary accruals and non-discretionary accruals are two types of accruals. Non-discretionary revenues are an acknowledgment of accrual income that are rational, unharmed by management plans, and subject to a commonly accepted benchmark or accounting theory, and in case the criterion is violated, this will impact the reliability of financial reporting. Discretionary accruals are an acknowledgement of accrual earnings which are free, uncontrolled, and are a preference of management plan, whereas discretionary accruals are acknowledgement of accrual revenues which are rational, unharmed by managerial policies, and subordinated to a benchmark (Sugiyono, 2010).

The schedule and form of investing, management, and financing activities can all be changed to manipulate earnings (Vorst, 2016). Real earnings management (REM) has indeed been studied in the financial reporting literature by looking at management implementation plan for R&D and marketing expenses, sales price adjustments, sale of assets, increased production, or share repurchases (Ali & Zhang, 2015; Graham et al., 2005). REM activities, which can have a big monetary effect on profitability, are typically implemented at the closing of the financial year, as management becomes aware that they are not on pace to fulfill their quick earnings projections and take steps to close the gap.

According to research findings in Graham et al. (2005), around 80% of polled CFOs would reduce discretionary expenditure in R&D, promotion, or repair to meet an earnings objective. Likewise, Bhojraj et al. (2009) show that management with equity-based rewards reduces discretionary spending to reach analyst expectations, while Gunny (2010) discovers that REM is closely related with enterprises hitting earnings expectations.

There is a large body of research on the factors that influence earnings management. 4 Prior research, on the other hand, has rarely focused on the forces that drive judgement and the function of MCS in assisting managers in making decisions.

The study findings in Dichev et al. (2013), which implies that internal control system are a major element in assessing earnings quality, and the function of Abernethy et al. (2019), and Brink et al. (2020), considers that reward and remuneration agreements, which are only one component of the MCS, encourage earnings handling, are the exceptional cases. Next, we'll look at MCS's involvement in REM support.

The collaborative usage management control systems (MCS) and real earnings management are investigated (REM). 1 Real-time earnings management (REM) refers to changes in the scheduling and structuring of investing, operational, and financing decisions (Vorst, 2016). Decreasing R&D and promotional spending, extending aggressive lending terms, sales of assets, oversupplying, or rebuying stock are all instance of these acts (Ali & Zhang, 2015; Graham et al., 2005; Roychowdhury, 2006). Managers use REM activities to fulfil profit targets, according to previous research.

Earnings management has received much interest in the studies of financial accounting, and it's generally thought to have negative implications (Dechow et al., 2010), but an increasing number of studies shows both advantages and circumstances where REM may damage value. 2 According to (Gunny, 2010), firms who use REM to simply fulfill earnings targets score better in the long run than companies who do not use REM and fail or only accomplish their earnings goals. Bhojraj et al. (2009), on the other hand, indicates inferior long-term market efficiency for corporations that adopt REM to fulfill their earnings goals. With varied results on the effects of REM activities, the function of MCS in assisting managers in making decisions and executing these steps becomes a concern. We investigate whether the interactive use of MCS helps management I take real steps to fulfil earnings targets, which would be categorized as REM, and (ii) make REM more efficient in form of improving organizational performance.

We make two forecasts. First, previous research has found that using MCS in a collaborative manner enables the conversation and execution of implementation plan, allowing employees to monitor the timeframe of their choice-making and resulting in improved management practices. We expect that interactive usage leads to the discovery of REM operations by concentrating organizational attention on operational uncertainty that threaten company existence. The term "interactive MCS" refers to how system-generated material is "defined and examined in face-to-face conferences of leaders, workers, and peers" Simons (1995), allowing for ongoing challenge and discussion of the original data that prompts action plans to fulfill profit targets. Although Simons (1995) acknowledges this potential side effect of MCS use, no previous research has been done to evaluate it.

Second, we believe that proactive use will aid in the assessment, selection, and execution of REM measures, resulting in increased business profitability in the long term. MCS assists management in adopting REM activities, such as reducing inefficient processes and investing, in an efficient and accurate manner, as stated in Gunny (2010). REM actions, on the other hand, are likely to show myopic strategic choices if, for instance, reductions in R&D, coaching, servicing, or promotion causes a reduction in future revenue, customer/employee unhappiness, or harm of competitive edge, as demonstrated by Bhojraj et al. (2009).

The second assumption (on performance repercussions) is unrelated to the first, in that organizations that have already recognized REM activities via prior experience would gain from participatory usage MCS at this phase to assist managerial actions.

While REM might seem to be comparable to notions discussed in the management accounting studies (Ferreira & Otley, 2009; Otley, 1999), it is a separate concept. Ex-ante (ahead of time) preparation and development, including the usage of equipment to boost and preserve business performance depending on the methodologies, measures, procedures, and systems required to monitor it, are all part of performance management (ex-post). One of the most basic assumptions in performance evaluation is that the goal is to enhance performance over time, and that activities are conducted in compliance with the required strategy. REM, on the other hand, refers to managers acting in ways that aren't normally part of the plan in order to meet short-term financial goals (García Osma et al., 2022). As a result, there are at least four distinct variations between real earning management and performance managing decisions: (1) their scope/objective (in which performance is wider than income); (2) their scheduling (REM activities are taken near the end of the time period (Zang, 2012), powered by earnings stresses that arise near year-end, whereas quality management is expanded all through the time frame); (3) their timeframe (REM decisions are based on short, while performance management is distributed all through the period) (REM are one-time activities). As a result, the two conceptions have distinct time, involve different activities, and have different goals (García Osma et al., 2022).
The following analysis is performed to see if our predictions are correct. First, we look at the link between interacting MCS use and readiness to engage in REM activities. Second, we examine whether organizations that employ MCS to choose REM actions dynamically have superior future performance. It would support our hypothesis that interactive use serves as a method to assist managers in identifying and adopting activities that will help them accomplish their profits objectives while preventing actions that will harm the company's future performance. In our experiments, we combine survey data with financial statement data. The target survey participants are practice managers (mainly CEOs and CFOs), as they are likely to have the greatest knowledge on MCS use, as well as of firms' earnings benchmarks. We approached the Spanish Accounting Association (AECA) to assist in identifying and contacting suitable study participants from its membership database. AECA is the main recognized professional body for practice managers in Spain. We report the following key findings. Consistent with our

predictions, interactive use of MCS is positively associated with REM. Our results also confirm that REM, in combination with interactive use of MCS, is positively related with improvements in performance, as measured by return on equity (ROE), and return on capital employed (ROCE), in three windows: *t*+1, *t*+2, and *t*+3. These results are consistent to the use of survey and archival-based measures of REM (García Osma et al., 2022).

Earnings are critical for businesses, particularly those that are listed on the stock exchange. Management is accountable to investors for the firm's earnings. Earnings are usually a reflection of a company's performance. Earnings became so significant that they are vulnerable to managerial manipulation. The most troubling aspect of using an accounting system in income statements is earnings management (Subramanyam, 2014).

Assumptions and guesses are used in accrual accounting to allow corporate management to recover crucial information and gain expertise in enhancing accounting use. There are two types of earnings management: genuine accounting procedures and accountancy and regulatory assumptions that affect accounting calculations, both of which are examples of concealed earnings management (Subramanyam, 2014). Earnings management might harm investors by providing financial data that is contrary to reality, causing investors to make poor decisions about the profitability of firms. Earnings management occurs when there are conflicts of interest between management (agents) and shareholders (principal). Conflicts in interests arising from managers' or shareholders' aim to maximize their own benefit (Susanto, 2018).

Some previous earnings manipulation studies relied on accrual-based earnings manipulative tactics, although accrual-based earning management approaches might be abandoned. As a result, it's crucial to know how the corporation manages earnings by manipulating activities apart from earnings-based accrual (Sari, 2015). Real earnings management is a form of cash flow management carried out by corporate governance through the firm's operating processes (Sun et al., 2014).

PT Indofarma Tbk was involved in a lawsuit of earnings management at a public corporation in Indonesia in 2002, concerning the fraud of financial accounts. Earnings management is accomplished by assigning the price of goods sold to the value of stock in the procedure, resulting in a lower price of goods sold. Since the administration tries to influence the cost of the product, this is known as real earnings management. Earnings management depending on the cost of goods sold allocation is a method of real earnings management, according to the statement stated (Roychowdhury, 2006). At this time, research on real-time earnings management strategies is required. Particularly in Indonesia, where little study on real-based profits management has been conducted. Several real earnings managerial practices, like those used by PT Indofarma Tbk, may be taking place in Indonesian public firms.

Due to a lack of understanding of financial statements, certain companies, such as Enron, Worldcom, Kimia Farma, and Toshiba, experienced mismanagement errors that were either underrated or overpriced. This raises concerns regarding honesty, information leakage, and the role of accounting in the generation of relevant and trustworthy financial data. The Toshiba issue, which surfaced in April 2015, suggests that the corporation's economic situation differs from that of an independent panel and that earnings have been overstated by $ 1.2 billion over five years. This has caused shareholder skepticism, resulting in a 20% drop in Toshiba's stock price from April 2015 (Susanto, 2018).

In order to sustain the continuity of operations, every corporation has a profit target. Earnings, which are defined as the difference between revenues and expenditures over a specified time period, are inextricably linked to managerial decisions. Earnings become one indicator of management's performance in running the organization. As a result, the management firm is always ready to show profits in financial accounts. Taking earnings management is among the options available to corporate management (Susanto, 2018).

Earnings management is the manipulation of financial information through leaders' opportunistic activities aimed at achieving their goals. By raising earnings, it can show positive firm performance by financial accounting manipulation, which will eventually render the earnings data provided useless. Real earnings management and accrual earnings management are two different types of earnings management. This is based on the impact on cash flow, whether direct or indirect. Manipulation of results through operational operations that actually influence cash flow is known as real earnings management. Whereas accrual earnings earnings management is the rearrangement of earnings management via forecasting and accounting rules that cause no immediate effect on cash flow, accrual earnings management is the rearrangement of earnings management via forecasting and accounting rules that cause no clear influence on cash flow ikk (Sun et al., 2014).

Real earnings management is a sort of financial manipulation carried out by firm management by functional operations that have a direct effect on the firm's cash flow (Sun et al., 2014). Earnings management by manipulation of real activity, according to Roychowdhury (2006), is the moving of earnings management from regular operating practice to performance in order to attain th e intended earnings aim. The firm's management is encouraged by a wish to mislead some shareholders into trusting financial statements based on normal operating condition. Real earnings management can depreciate a company's worth since it has a negative impact on cash flows in future during the period in question (Roychowdhury, 2006).

Management (agents) seek to monitor earnings through real operations instead of accrual activities. As per Roychowdhury (2006), the transition from accrual earnings management to real earnings management is because of the following reasons: (1) accrual modification is more able to impress auditors' attention than real modification, like changing the company's cost model; (2) depending on accrual handling alone can come with risks. Realized loss-earning or deficiency year-end earnings might make it harder for firm management to adjust reimbursements after the conclusion of the financial term. If declared earnings fall short of the expectations, the accrual-based method becomes ineffective. This indicates that the firm will no more be capable of meeting the desired targets, and in case the required objective is not met, the management will be regarded inefficient and would not be eligible for a reward. As a result, manipulating real activities is a safe technique to meet earnings goals because it may be conducted at any time during the company's operational period, increasing the likelihood of meeting the target.

Roychowdhury (2006) discovered evidence that firm management manages real earnings in three ways. To begin, sales manipulation is an attempt to raise sales momentarily over a period of time by offering excessive product price discounts or providing credit conditions that are more favorable. Assuming a favorable margin, this method can boost current-period sales volume and earnings. Giving discounted rates and shorter credit terms, on the other hand, will diminish current-period cash flows, resulting in anomalous cash flows.

Second, the corporation can minimize discretionary expenses like research and innovation, promotion, and sales, as well as leadership and administration, especially during periods when such expenses do not directly contribute to sales and earnings. This method can boost the present period's cash flow and cash flows, but it also has the potential of diminishing future cash flows.

Discretionary workloads are reduced, resulting in extraordinarily low discretionary burdens (Susanto, 2018).

Thirdly, excessive production to minimize the price of goods procurement, corporate management can create more than is required on the idea that higher output levels will result in reduced fixed costs per unit of product. This method has the potential to lower cost of goods sold (cost of goods sold) while also increasing operational earnings. Though, sales during the same period are insufficient to pay costs spent as a consequence of excessive production and the overhead price of products being produced, leading to reduced cash flow from operations than usual. There is a positive association between market valuation and real earnings management, according to Liu and Tsai (2015). According to Sun and Lan (2014), real earnings management has a detrimental impact on company value (Roychowdhury, 2006).

Financial reporting, which employs International Financial Reporting Standards (IFRS) and accounting concepts, is used by the company's management to interact with external stakeholders. The knowledge revealed by the company's management is used by the corporation's stakeholders to decide like allocation of funds. The level of information presented by the financial statement influences the future path and destination of the company, which in return defines the value of these choices. Such accounting rules, on the premise on which a company's management creates financial statements, give the company's management a lot of leeway and flexibility in preparing financial reports. A company's administration can use this freedom either effectively or strategically. If selectivity and flexibility are employed effectively, the value of financial data and, as a result, the efficiency of the organization will improve (Subramanyam, 2014). Conversely, if discretion is exercised haphazardly, it may detract from the company's or resource allocation's worth.

The earnings of a company are among the most basic and important pieces of information that financial reporting reveals, as it determines the company's future. If management teams use their judgment and discretion in determining earnings, it will result in management or modification of income. The long-term effects of this earnings manipulation on the company's earnings and worth are significant. As a result, earnings management plays a critical role in defining a company's earnings and future prospects, and it has been widely debated and investigated in the business finance studies.

As previously stated, International Financial Reporting Standards (IFRS) provide finance professionals with some versatility in preparing financial records by allowing them to choose accounting rules and alternate solution methods for asset valuation, liability appraisal, income, and expense recognition. Using this Earnings management versatility in financial statements, the company's financial outcomes can be changed (Ortega & Grant, 2003). According to Schipper (1989), deliberate interference is performed in the outside reporting procedure for the goal of disseminating the company's confidential information for the intention of reaping private profits. Earnings management is the phrase for this intervention.

Courtis (2002) emphasized the significance of undertaking studies in this field of interest by saying:

“The accounting profession should make strenuous efforts to comprehend the implications of narration and visual tools that aid perceptual engineering”.

"Management initiatives that vary from regular company processes, conducted with the sole purpose of attaining specified earnings benchmarks," according to Roychowdhury (2006). Because activities done by management to improve profitability may harm lengthy cash flows and potential value, real operating performance modification can have negative repercussions for company value. Because it is difficult to identify even by analytics and regulators, real-activities-based modification is increasing favor over accrual earnings management. It is also new in comparison to accrual earnings management, thus there are few examples, especially in emerging countries.

Managers understand that actual earnings management can help them reach short-term goals. In recent times, real earnings management has engaged more people who are willing to forgo future cash flows in order to achieve their goals. Real earnings management is much harder to detect because this includes real operational and financing approaches, and as a consequence, cash flows are impacted (Kothari et al., 2005). According to Kothari et al. (2005), real earnings manipulation is much more costly for firms than accrual earnings management, therefore managers prefer to involve in accrual based earnings management before engaging in real activity manipulation.

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Following Roychowdhury's work on real earnings handling, a growing body of research has documented proof on real earnings management, including comparisons of real and accrual earnings management, the function of real earnings management in shareholder offerings, and the replacement of accrual earnings management with real earnings management (Roychowdhury, 2006; Gunny, 2010; Kothari et al., 2005; Zang, 2012).

Roychowdhury (2006) asserted that the motivation for interacting in real-time transaction-based earnings manipulation is to prevent reporting losses, and that there is evidence of real-time activity management engagement in meeting analysts' forecasts. Around the time of the Sarbanes-Oxley Act, Cohen et al. (2008) found proof of real transaction-based earnings management. Results revealed out post Sarbanes Oxley real earnings action-based management boosted minimizing the accrual earnings management. In other terms, Cohen and Zarowin (2010) found proof that as the legal condition has become more restrictive, the emphasis has changed from accrual earnings management to actual earnings manipulations. Study of Zang (2012) show evidence of employment of both real and accrual based earnings management although choice making process concerning real earnings management is made prior to accrual earnings modification. The research further indicates that after being mentioned in a security class action lawsuit firm shift manner of profits manipulation from accrual to actual.

For the previous some years, scholars have been fascinated by the relationship between earnings management and corporate social responsibility, finding that the two are intertwined. Companies that are committed to CSR are less likely to manipulate earnings, according to Hong and Andersen et al. (2011), Chih, Shen, and Kang (2008), Scholtens and Kang (2013), and Shafer (2015). Almahrog, Marai, and Knezevic (2015), on the other hand, recognized that there are varied and contradicting results regarding the effect of EM on CSR, and so provided two viewpoints in their research. The first viewpoint claims that companies with a good commitment to CSR are less likely to falsify their financial information, while the second viewpoint claims that CSR can be utilized by managers to falsify results.

Roychowdhury (2006) discovered considerable proof that directors participate in earnings management. After exposing major shortcomings, the management may create certain methods of self-defense as an entrenchment technique, one of which is improving the firm's CSR program, based on the principles of the agency theory (Rahmawati et al., 2014). CSR initiatives add to the firm's positive image, which helps the business in a variety of ways from a strategic standpoint. Prior et al. (2007) discovered that earnings management has a favorable impact on CSR, and they pointed out that directors manage their companies' profitability for two reasons. Firstly, to fulfill stakeholders' interests via CSR while avoiding activism, and second, to employ CSR as a hedging instrument against shareholder disciplinary proceedings.

Real Earnings Management, Firm Performance, and Firm Value

There are few types of research that show a link between earnings management and corporate performance, and the results are mixed. Taylor and Xu (2010) discovered that real earnings management has no significant negative impact on a company's later operating results. They supported their results by pointing to Tan and Jamal (2006) study, which claimed that organizations carefully weigh the prices and benefits of real earnings management in order to avoid harming future operating results. According to Taylor and Xu (2010) and Tan and Jamal (2006), management manipulates real earnings to the degree that the company's future economic results is not adversely effected. Sutrisno (2017) discovered that manipulating real earnings via selling and discretionary expenditures is positively linked with subsequent economic condition as measured by return on assets in different research. Though, Sutrisno (2017) also stated that, while real earnings management might provide economic benefits in the short term, it may also have a negative impact on the firm's operational performance in the long run, as evidenced by another investigation. Leggett et al. (2017) found substantial proof that REM is associated with future financial results in terms of return on assets. Leggett et al. (2017)'s results are compatible with those of Farooqi et al. (2014), who found a strong adverse relationship between real earnings management and company value, as well as the fact that "shareholders undergo actual economic damages from managers' endeavors to manage earnings through operating processes". This is also in line with Roychowdhury (2006) and Joosten (2012)'s concerns concerning the long-term harmful implications of departing from standard business practices.

Following Dechow et al. (1998), hereafter DKW, I express normal cash flow from operations as a linear function of sales and change in sales in the current period (Eq. (3) in Appendix B). To estimate the model, I run the following cross-sectional regression for every industry and year:

$$\frac{\text{CFOt}}{A_{t-1}} = \alpha_0 + \alpha_1\left(\frac{1}{A_{t-1}}\right) + \beta_1\left(\frac{S_t}{A_{t-1}}\right) + \beta_2\left(\frac{\Delta S_t}{A_{t-1}}\right) + \varepsilon_t$$

where A_t is the total assets at the end of period t, S_t the sales during period t and $\Delta S_t = S_t - S_{t-1}$.

For every firm-year, abnormal cash flow from operations is the actual CFO minus the ‘‘normal’’ CFO calculated using estimated coefficients from the corresponding industry year model and the firm-year’s sales and lagged assets.18 Expenses in DKW are expressed as a linear function of contemporaneous sales. Following DKW and allowing for intercepts, the model for normal COGS is estimated as

$$\frac{\text{CFOt}}{A_{t-1}} = \alpha_0 + \alpha_1\left(\frac{1}{A_{t-1}}\right) + \beta\left(\frac{S_t}{A_{t-1}}\right) + \varepsilon_t$$

Earning Management and Firm Performance

The ability to produce earnings is used to assess the firm's productivity. As a result, a company will make an effort to improve performance by collecting a large amount of profit. A company with a strong level of earnings is more appealing to shareholders than one with a low level of earnings. Earnings, as reported in a financial report, can have an impact on a company's decision-making (Al-Absy et al., 2020; Waliuddin et al., 2018). Traders and investors, on the other hand, analyze these figures to evaluate a firm's profitability and investment possibilities (Ernayani & Robiyanto, 2016). As a result, administration will want to record a high level of earnings in order to demonstrate that the company is doing well.

In the face of strong competition, a company makes many attempts to make a large amount of money in order to increase its value. The usage of a financial statement depends on the evidence, simply focuses on profits information, irrespective of the way the income is obtained. The company's efforts to increase the firm's value are reflected in the high level of earnings. Corporations use earnings management to improve or demonstrate a large number of earnings. Earnings management is a strategy used by a firm's management to manipulate earnings presented in financial statements. Companies employ earnings management to balance out earnings volatility and portray more stable profits month after month, quarter after quarter, and year after year. Although large variations in revenue and expenditure are a common element of business operations, shareholders who seek sustainability and growth might be concerned (Suryani et al., 2019).

When a corporation is under stress to manipulate profitability an estimated target, earnings management might occur (Hermiyetti & Manik, 2013). As per Tong and Junarsin (2013) and Handriani and Robiyanto (2018) , the idea of profits management is impacted by the contradiction of interest among management (agent) and shareholders (principal) because each of these seeks to reach a given degree of welfare. An earnings management approach inflates results by using accounting processes to give an overly favorable impression of a company's economic status. Companies utilize earnings management to smooth out earnings fluctuations and portray revenues that are regular each quarter or year (Hernawati et al., 2021).

There are two objectives of the firm's management in earnings management practice, as per AlNajjar and Riahi-Belkaoui (2001). The first goal of earnings management is to create an earnings stream that appears more foreseeable and stable. Once the news is released, the value per share of a firm normally rises or falls, depending on if the business fulfills or misses earnings estimates. Management seeks to sway accounting processes in order to satisfy earnings forecasts and keep stock prices high. Exterior assumptions come into consideration when a corporation has already forecasted its revenues and shareholders are now expecting the same level of profit or even more. To accomplish the predicted target, management might feel compelled to move earnings from one fiscal period to the next. Simply put, earnings management makes use of the various ways in which accounting processes and practices can be implemented to financial statements (Hernawati et al., 2021).

Management is also expected to manipulate results by real-world activities (such as delaying or reducing R&D, advertising spending, or even foregoing valuable initiatives) than by financial fraud (Graham et al., 2005). Firms select between REM and AEM, according to Cohen and Zarowin (2010), depending on their capability to participate in AEM and its related cost. AEM has also become more difficult due to strict accounting standards, transparent company governance standards, and other factors. As a result, management have either switched totally to REM (Cohen et al., 2008) or regard REM as a supplement to AEM (Cohen & Zarowin, 2010). Kim and Sohn (2013) investigated whether a company's REM operations had an impact on its price of equity capital. They argue that investors view REM actions to be damaging to the source credibility of reported results and, as a result, demand greater risk premium costs than AEM. According to Zhang and He (2013), overall mean Chinese enterprises cut R&D spending to fulfill profit targets. Managers slash marketing expenses to exaggerate current profits, according to Mizik and Jacobson (2007), which momentarily boosts stock values but hurts firms' profitability in the long term.

Real Earning Management and Firm Performance

Some researchers have concluded that using REM has no negative effects on a company's future operational performance, while others have discovered that it does. According to Taylor and Xu (2010), companies that involve in REM actions handle their operating operations on a regular basis and do not have bad operative outcomes in the future. In a separate study, Gunny (2010) found that enterprises suspected of engaging in REM functions performed better than their non-REM counterparts in terms of subsequent operating efficiency. Tan and Jamal (2006), on the other hand, discovered that operational EM (REM) used by high foresighted managers was damaging to the company's long-term success. Wang and Zheng (2020) discovered real earning management to be adversely related to the company´s operating results in a more latest study. Cohen and Zarowin (2010) looked at how REM and AEM affected post-SEO operating efficiency. They discovered that while both forms of EM have a negative influence on subsequent operating results, the impact on enterprises utilizing REM is much more severe. Researchers examined the future performance of the company involved in EM operations to beat analysts' estimates to companies that do not control their profitability and fail analyst forecasts. They discovered that corporations that manage their accruals or purposefully reduce discretionary expenses experience a brief increase in stock price. Moreover, in the long term, their profitability is inferior to companies that maintain normal discretionary expenditure levels. From the foregoing explanation, it is clear that earning management through actual business activity remains largely untapped, particularly in developing economies such as India.

Furthermore, academics cannot agree on the association between a company's REM operations and its future results (Kumar et al., 2021).

Earnings management is based on accrual accounting's agility, which allows managers to use their data to enhance the worth of financial reports and hence increase the company's value (Subramanyam, 2014). Essentially, inside the financial report, earning management is critical. Management has external and internal motivations while employing judgment, which drives managers to exploit their powers and purposefully create poor profits management. Free cash flow can also direct the corporate entity to rebuy its own stock and perform related party transactions with its figureheads, substantial shareholders, and/or directors, putting the industry's leaders, significant owners, and/or executives in a private position while denying minority investors of a broad approach (Nekhili et al., 2016). Such actions could adversely affect the corporation's financial values, causing stock prices to decline and potentially causing managers to be changed the financial policies of firm. The threat of bankruptcy forces management to employ efficient earning management strategies in order to maintain the company's financial performance (Kamran et al., 2018). Managers fear losing their seats if the company goes bankrupt, so they employ the company's assets for positive net present worth projects to increase the firm's wealth rather than wasting them for personal gain. In the event of insolvency, the company's management is replaced by new ones, and the new management is responsible for the same agency costs, free cash flow, and financial power issues as before. According to studies, business leveraged plays an essential role in lowering agency costs of free cash flow by reducing free cash flow within the control of the supervisor's earning management. This result is consistent with theories of capital structure, and it also investigates the crucial function of earning management in the relationship between a company's value and its monetary policies.

The impact of earnings management as a mediator in the connection between corporate governance and company performance was investigated by Kang and Kim (2011). The study looked at 1,104 companies on the Korean Stock Exchange and discovered that if a business has a strong governance framework, genuine action-based earnings management is decreased. This type of earnings management can help to reinforce the link between corporate governance and Tobin Q-measured business performance.

Gong et al. (2008) examine the abnormal returns and how to business outcomes after rebuy to study the earnings management. The proportion of managers who repurchase the company and the CEO's shareholding both increase the drop in earnings management. One reason that businesses have excess return after a post-repurchase and repurchase abnormal earnings, is that post-repurchase understand earnings growth raises expectations developed on the foundations of pre-repurchase discouraging earnings volumes, according to the research (Kamran et al., 2018).

The effectiveness of earning management on the level of transparency and firm performance was explored by Bazrafshan et al. (2015). Over the period from 2006 to 2013, illustrate that a non-linear relationship exists between disclosure and business outcomes when recorded performance is compensated for the influence of earnings management, utilizing Hong Kong listed companies as a case study. The findings of this study revealed that increased corporate exposure can possibly result in rewards, but that at a certain degree of visibility, growing disclosure lowers genuine business performance.

Ujah and Brusa (2014) used a sample of 489 companies from 1990 to 2009 to investigate the influence of liquidity and financial strength on earnings management in different industries. The findings demonstrate that both financial power and cash flow volatility have an impact on their degree in business management. Furthermore, the study discovered that the sector to which a group is attached is influenced to varied degrees and amounts by the sector to which it controls its income, with consumer products and users being the most controlled sectors on a cyclical base (Kamran et al., 2018).

Effect of Earning Management on Firm Performance with the moderating role of Board Structure

Earning Management and Governance Board

Many enterprises in Asia are managed by a family or the administration and have a restricted shareholding. The managerial ownership structure does matter, especially in China's most significant financial markets, the Shanghai and Shenzhen Stock Exchanges. Almost all of the publicly listed companies turn into private firms or are funded by a government company during the original formation of both marketplaces. The government owns the majority of the company shares in most of these firms mentioned on the two stock trading markets, thanks to capital injections from federally-owned businesses. Because of the distinctive ownership model of Chinese listed businesses, if market mechanisms fail to adequately oversee them, the board of directors of whatever form is unable to control the management. According to Qiang (2003), the reformation of Chinese listed businesses' ownership model has still not achieved, and the best method to strengthen corporate structure is to maximize resource allocation by just decreasing state-owned assets and increasing share transactions in rotation.

As per the China Securities Regulatory Commission, listed businesses must select management executives, along with at least two autonomous directors or one-third of board posts for specialized listed companies (CSRC). As a consequence, papers looking into the influence of corporate governance on profit exploitation in the Chinese stock market have been written. The number of shares, foreign investors, and independent directors are among the effects of business owners, board structure, and financial accounting on discretionary accruals, as per Firthet al. (2007). Using a tunneling perspective, Liu and Lu (2007) explored the association between earnings management and corporate governance in Chinese public listed businesses, finding that organizations with high corporate governance had reduced levels of earnings management. Chen and Al-Najjar (2012) investigate whether listed businesses with independent directors, as mandated by the CSRC, have better corporate governance. They believe that having independent directors on the board does not make the organization operate more efficiently. Derived from empirical findings in the past studies, this study examines the influence of board structure characteristics like the proportion of independent directors, the board size, and the dualism of the board chairperson and CEO on earnings management. Because the reformation and opening-up of the Chinese capital market, associated rules and procedures have been enacted and revised on a regular basis, allowing China being the world's second-largest economies and the Shanghai Stock Exchange's collective market worth to rank seventh worldwide in 2013.1This type of significant economic institution, that is among of the world's biggest financial markets, becomes a hot topic among domestic and international specialists and investors. Furthermore, we are drawn to use A-shares on the Shanghai and Shenzhen Stock Exchanges as findings to examine the influence of ownership model and board composition on earnings management in the period 2002 to 2012. This is because of the individuality of Chinese enterprise ownership structures and the CSRC necessity to create independent directors for improving organizational governance. The ownership structure is separated into two groups: institutions and insiders, whose shareholding percentage and intensity have an influence on multiple earnings management strategies. Furthermore, board composition includes board composition, independent director positions, and the dualism of the board chairperson and CEO.

The bigger the fraction or the more centralized the organizational ownership, the more probable the company performs discretionary accruals for short-term purposes, according to empirical findings presented in this study. However, the greater the proportion of insider interests, the less likely the company is to control earnings. Just the dualism of the chairperson of the board and CEO has a substantial and favorable impact on earnings management between the board characteristics variables. Due to the consequences of perpetuation by managers or due to the managerial obligation to follow operation execution, earnings management is employed to beautify financial incomes. The CSRC issued Administrative Measures for Reform of Spilt-Share Structure on Listed Companies in terms of attracting more foreign investment into the Chinese capital market. Among the most crucial would be that it is said to be able to cope with the issue of non-tradable stocks, which are allowed to trade through legal processes. This program must be taken into account both secondary market trading patterns and the concerns of transferable shareowners, hence it has three primary features: (1) It tries to be adaptive instead of a one-size-fits-all solution; (2) tradable shareowners have the last say; and (3) short-term market volatility may be managed. In 2005, the program will be conducted in three stages. As a result, we look at data from 2006 to 2012 and discover that there is no substantial variation between after and before the legislation's implementation.

Impact of Ownership Structure and Board Characteristics on Real Earnings Management

Utilizing a panel data technique, the implications of the ownership model and board composition on real earnings management are investigated. The empirical findings, which are not presented in the text, suggest that the bigger the percentage or intensity of institutional stock holdings, the more likely managers are to raise manufacturing costs. Inside shareholding is adversely and strongly connected to atypical production costs, implying that insiders with larger holdings are much inclined to oversee, allowing managers to perform earnings management of manufacturing costs with greater ease (Hsu & Wen, 2015). The effects of institutional shareholdings on discretionary spending show that the proportion and intensity of institutional stock holdings have a considerable favorable impact. Those with a bigger proportion or intensity of stock holdings can essentially restrict management from cutting discretionary spending if they can perform monitoring. Insiders' influence on discretionary spending, on the other hand, has a substantial negative association at the 10% mark. Insiders with increasing shareholding shares cause employees to conduct earnings management by lowering discretionary spending, resulting in unpredictable outcomes (Hsu & Wen, 2015).

In terms of the impact of board mechanisms on actual earnings management, none of the three board characteristics factors show a substantial effect on irregular production expenses. It has a good relationship with independent directors and the dualism of chairman and CEO, but a negative relationship with board size. The board size has a favorable effect on discretionary spending, but the other two factors have an unfavorable and considerable impact. The connection between actual earnings factors and board characteristics has become highly muddy as a result of the exchange between these two parameters, thus a complete indication of real earnings requires further investigation (Hsu & Wen, 2015).

Board Members

Throughout 1990, P.A. Gompers, L. Ishii, and A. Metrick discovered a substantial association between corporate governance and stock returns, as assessed by Tobin's Q. Businesses that are properly handled are more successful, attractive, and pay higher cash profits to investors, according to L.D. Brown and M.L. Caylor. Managers have a proclivity for taking corporate resources and using them for personal gain. Good corporate governance diminishes managers' 'power to control' on investors and lenders, increasing the likelihood that they invest in initiatives with net positive current value (Naimah & Hamidah, 2017). This demonstrates that organizations with superior management have better operating performance, as measured by L.D. Brown and M.L. Caylor's performance metrics. R. La Porta, F. Lopex-de-Silanes, A. Shleifer, and R. La Porta et al. Investor security is linked to successful corporate governance, according to Vishny. When it comes to the relationship between board size and firm performance, there are two conflicting viewpoints. First, consider that a smaller board of directors can have a significant impact on the company's success. D. Yermack discovered an inverse association between board size and positive financial ratios like profitability, asset utilization, and Tobin's Q. S. empirical evidence Cheng demonstrated that organizations with more board members have less unpredictability in their performance.

The second viewpoint claimed that having a large board of directors would improve the firm's ability. The capacity of directors to supervise and control managers is determined by the size of the board. R. Adam and H. Mehran claimed that in order to monitor successfully, the organization must have a larger board size. A larger board of directors will enable the company to be managed more effectively. It will be simpler to get information if the board is larger. Transparency, accountability, commitment, autonomy, and justice are corporate governance values. The Indonesian Institute for Corporate Governance (IICG) created the Corporate Governance Perception Measure, a corporate governance index (CGPI) (Naimah & Hamidah, 2017). The company's performance is predicted to improve if proper corporate governance is implemented.

Board Governance and Firm Performance

Previous research into the link between director freedom and firm success has yielded mixed results. The more outsiders on a board of directors, the more unbiased it is. There was no link between the share of outsiders and Tobin's Q, ROA, asset turnover, or stock returns, according to S. Bhagat and B. Black. The membership of the board of directors has a significant impact on the financial performance of the company. The board of directors has the authority to oversee managerial functions, assess manager competence, and award administrators. The board of directors, according to E.F. Fama and M.C. Jensen, is an institutional method of control that is critical for monitoring senior management. S. Rosenstein and J. Wyatt discovered that the company with the outsider receives a market prize. J. Brickley, J. Coles, and R. Terry discovered a positive association between the proportion of outsiders and stock market reaction, while R. Anderson, S. Mansi, and D. Reeb discovered the reverse relationship between director independence and loan cost. A large board with a high percentage of outsiders can supply a wealth of information (Naimah & Hamidah, 2017). Several studies have revealed that the size of the board of directors and the percentage of outsiders on the board are connected to the size and complexity of the company. The impartiality of directors has no association with Tobin's Q, according to L.D. Brown and M.L. Caylor, but it does have a positive relationship with ROE, profit margin, dividend yield, and stock repurchases. They discovered that separating the CEO and the board of directors would increase the company's value. The favorable stock price response upon the notification of the hiring of outside directors, according to S. Rosenstein and J. Wyatt, indicates that the percentage of outside directors has an impact on shareholder value.

The majority of accounting fraud instances were generated by the board of directors' lack of oversight and management's practice of earnings management to satisfy their own purposes. The board of directors assesses the effectiveness of corporate executives by looking at operating results. As a result, managers who do well are rewarded with better wages, commissions, or incentives. The board of directors gives incentives to management in order to better align management and shareholder objectives. However, in current years, executives with exceptionally high remuneration and benefits have been dubbed "fat cats," causing widespread controversy and displeasure among investors. As a result, governments all over the globe have tried to avoid fraud incidents from recurring and enhance corporate governance in businesses. The mission and business strategy of a firm are established by the board of directors. As a result, the directors' actions and integrity are critical in determining the course of the companies that these directors oversee. In past years, study on board diversity has emphasized directors' backgrounds, attributes, and attitudes, as well as whether the directors' backgrounds influence the board's performance(Huang et al., 2021).

Furthermore, previous research looked at the impact of earnings management and the usage of financial measurements to measure business success. Weak corporate governance, according to these writers, has a significant impact on earnings management. Financial ratios, on the other hand, are prone to earnings management and hence are unable to accurately reflect a company's genuine success. Despite the abundance of research on corporate governance and earnings management, few studies have looked at how the two elements interact (Huang et al., 2021).

The employment skills of the board of directors were examined by Drobetz et al. (2018). They discovered that external directors' job experience is positively connected with a company's worth. In other terms, a board of directors with increased experience and expertise adds to the value of the company. Whenever the board of directors has a varied variety of specialist experience and knowledge, the directors may be able to support each other's efforts in the group. Even though the directors have opposing viewpoints on a given subject, they can work together to enhance the board's performance in terms of implementation, manager oversight, and discussion. Likewise, it is desirable for the panel to have independent members with various professional backgrounds, and so they use their outside connections and abilities to aid the company's business activities, thereby increasing the corporation's total operating efficiency.

Since directors from various industries can provide a broad range of managerial skills and information, the members of the panel may broaden their perspectives by allowing additional ideas and proposals relevant to business activities if independent individuals are included. An organization's board of directors, especially, may require members with accountancy, fiscal, or legal knowledge to deliver specialized perspectives in order to enhance decision-making. Finally, a varied board's perspectives may improve the firm's operations and financial success (Huang et al., 2021).

According to Lemma et al. (2018), a gender-balanced board member is particularly active when the business's chief executive officer (CEO) changes. Active engagement from the board of directors is essential to keep the company running at this time. When board involvement was desperately required, Lemma et al. (2018) found that a gender-balanced board members indicated superior value. According to Nielsen and Huse (2010), organizations with a larger female chairman ratio can help shape polices and efficiently manage company operations, resulting in improved corporate performance.

Female directors, according to previous studies, have a considerable favorable impact on business performance [33]. Executive managers with greater educational degrees, in particular, increase firm performance dramatically. Similarly, Abbott et al. [34] found that organizations with female directors have less earnings management methods.

Jensen and Meckling [35] established independent director studies. According to these writers, having a larger proportion of independent directors on the board would reduce the agency conflict among managers and investors, resulting in improved corporate performance. Likewise, Liu et al. [36] found that independent directors who properly oversaw these businesses and maximized shareholder value might alleviate some of the inefficient issue in Chinese manufacturers with the state as the principal shareholder. Independent directors, according to these writers, have a favorable impact on corporate performance in China. Independent directors, according to Schnatterly and Johnson, not just to enhance corporate governance but also promote investor choices. Institutional investors, in particular, want to make investments in organization with a greater percentage of independent executives. Independent directors, according to Klein (2002), diminish managerial deceit.

Previous research has likewise produced contradictory findings. According to Koerniadi and Tourani-Rad (2012), the percentage of independent executives is negatively correlated with business success. A bigger number of independent directors has a negative influence on firm valuation rather than a positive effect. When a corporation is a family-owned business, independent governors on the panel and certain other monitoring committees, according to Linhares et al., can only fulfill limited functionality. Similarly, past researches examined the influence of independent non-executive directors on corporations using regulatory reforms and discovered that independent directors have a detrimental effect on company performance. Furthermore, these authors claimed that when governors' supervisory and consulting responsibilities are limited by increasing information-searching expenses, the directors' detrimental impact on business performance becomes more pronounced (Huang et al., 2021).

Because of the self-interest and knowledge asymmetries, Berle and Means (1932) were one of the first thinkers in leadership literature to restate this concept that top management aims cannot entirely align with that of investors. This basic concept, though, is not unique and can be linked directly to Smith (1776), who stated, "Becoming the leaders of other people's wealth, it cannot well be anticipated that they must see over it with the same anxious diligence with which collaborators in a private co-partner regularly observe over their own." Managers, according to Smith, are stewards who frequently distribute for themselves rather than their masters' honour. Moreover, according to Jensen (2000), the basic difficulty with corporate governance is that the aims of managers as well as those of investors, who own the business, are frequently at odds. The theoretical grounds for the necessity for corporate governance are thus derived from the agency theory, which promotes the dispute of interest that arises between the company's managers and investors (Aleemi & Uddin, 2020). Agency theory advises implementing specific protective covenants and regulatory systems in the shape of corporate governance to decrease the dispersion that emerges as a result of the separation of possession and control. The main goals and objectives of these external factors are to create a sense of safety for finance-providers, as well as to implement procedures to safeguard capital providers from management's self-centered inclinations and minimize agency costs (Gillan & Starks, 2000).

Meanwhile, an amount of extreme business failure and controversies, such as those involving Enron, WorldCom, AIG, and, most recently, Volks Wagon, have not only raised the issue of governance practices into the limelight, but have also managed to make the phrase good governance a popular statement and mainstream of consideration and dialogue among lawmakers, corporate boardrooms, and academic settings (Claessens & Yurtoglu, 2012). Moreover, the latest episode of world-wide financial recession in 2007 and 2008— especially the resulting implosion of Lehman Brothers and many other financial firms many of our monetary system's security flaws, leading to a loss of trust in the world financial order, markets becoming dysfunctional, and lending conditions tightening. The crisis's extraordinary quick and dramatic worsening elevated the likelihood of a recession on a magnitude and extent not seen because the Great Depression of the 1930s (Aleemi & Azam, 2017). In view of these incidents, among others, 'confidence' in corporate executives appears as a critical component for financial stability, market efficiency, and organizational effectiveness. As a response to the economic avalanche, promoters of corporate governance had to do some serious spiritual searching, which resulted in a renewed focus on the flaws in governance structures, forcing researchers and practitioners the same as each other to concentrate on the elevated importance of corporate governance in relation to the mistakes in firms' performance around the world (Aleemi & Azam, 2017). As a consequence, it has become a highest concern for all parties, including government agencies and financial regulators, all over the world (Aleemi & Uddin, 2020). According to Claessens and Yurtoglu (2012), these crises are the result of a number of structural factors, making corporate governance much more critical for growth of both society and economy.

Furthermore, the 'Board of Directors,' which is responsible for safeguarding fund providers, is at the core of every corporate governance mechanism (as a governance system). In the time world's financial crisis, though, 'Mary Schapiro,' the then-chairwoman of the United States' SECP, shrewdly challenged the competency of boards in various ways. Schapiro demanded that the boards provide the directors' backgrounds and skills in order to investigate what did go wrong. These 'filmmakers' background details,' according to Guo (2011), are a demographic feature of directors. Guo went on to say that, in spite of extensive investigations on corporate boards, the scientific proof is still incomplete and, for the most part, produces mixed results, necessitating that scholars emphasize and divert their attention to other substantial and mediating variables that may have a substantial impact on the relationship among company performance and board member behavior. Though, an essential question emerges: how do the demographics of the board of directors affect the firm's performance? Veltrop et al. (2015) make an intriguing proposal by laying a theoretical basis for addressing the subject of how demographic diversity in boards of directors can improve corporate performance. They point out that social and behavioral scientists have generally linked the phenomena to two major areas: knowledge and choice-making and social classification. Other researchers have reiterated the same argument (2007). Most corporate governance professionals and academicians, on the other hand, link demographic viewpoints to knowledge or decision-making characteristics, believing that greater demographic diversity refers to efficiency (Rice, 2015). Diversified firms, according to the theory (Walker et al., 2015), draw from a range of materials and sources of data. The social classification viewpoints, on the other hand, argue that diversification in boards may disturb board efficiency by behaving as a cause of separation (Aleemi & Uddin, 2020).

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