Corporate Governance and Earnings Management: A Review of Literature

Poonam Sethi* Annu Aggarwal**

Aditya Vikram* D.R. Saklani******

Abstract

Good quality corporate governance has a noteworthy influence in limiting earnings management practices. Countries with stronger legal systems & investor protection have reduced earnings management and improved the quality of financial reporting. Extant literature has investigated numerous corporate governance mechanisms that can have an inverse relationship with earnings management. Firms with higher dispersed ownership can reduce earnings management because no majority can control the operation of firms, thus reducing insider's incentive to mask firm performance and enjoy private benefits. Board independence induce certain monitoring behaviours in managers, including executive compensation, misappropriation of assets, pressure from shareholders to meet or beat expectations of firm performance etc. An audit committee oversees the internal control for financial reporting and quality of financial information and the presence of outside members on the audit committee strengthens its effective oversight focusing on the overall performance, thus reducing the likelihood of corporate failure and financial fraud. The quality of audit anticipated to enhance the reliability and quality of financial information. Female directors have better communication skills, hold more informed discussions, and possess better independent thinking, thereby contributing to better monitoring of the managers. This paper aims to review the extant literature on various corporate governance mechanisms, measures and incentives for earnings management and to see whether prevailing evidence supports the view that corporate governance practices can mitigate earnings management.

INTRODUCTION

Financial statements are seen as an important summary statistic of a firm's financial performance providing relevant information to stakeholders in efficient capital markets and are often used in valuing firms. While inappropriate accounting practices led to the demise of many well-known and large public companies such as Enron and WorldCom in the US in early 2000s, it recognised the need for strengthening corporate governance norms among legislators and regulators. While earnings become a criteria of managers' performance evaluation and compensation on one hand (Nia, Sinnadurai, Mohd-Sanusi, & Hermawan, 2017), on the other it is used as a parameter by investors and shareholders for investing in a firms' stocks (Mellado & Saona, 2017). Overstatement of financial reports to mislead investors is known as earnings management (Jones, 1991, Autumn;

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* *Associate Professor, Department of Commerce, Hindu College, University of Delhi*
E-mail id: poonamsethi@hinducollege.du.ac.in
***Assistant Professor, Department of Commerce, Hindu College, University of Delhi*
E-mail id: aaggarwal@hinducollege.du.ac.in
****Assistant Professor, Bharti College, University of Delhi*
E-mail id: adityavikram1993av@gmail.com
*****Associate Professor, Shaheed Bhagat Singh College, University of Delhi*
E-mail id: drsaklani99@gmail.com

Dechow, Sloan , & Sweeney, 1995; Beneish, 2001; Zhang, Perols, Smith, & Robinson, 2018). Several studies reveal that earnings management is actually an all pervasive phenomenon in the corporate world (Cohen & Zarowin, 2010).

The separation of management and ownership resulted in agency problems which led to the need for corporate governance. Corporate governance makes the managers (agent) accountable to the stakeholders (principal) like customers, suppliers, employees, shareholders, creditors and other parties with whom the company transact. Good corporate governance is an essential ingredient in corporate success and is characterized by transparency of corporate operations, timely disclosure of credible information, accountability of managers and board of directors towards shareholders, active co-operation between companies and stakeholders and corporate responsibility towards stakeholders.

Both the areas of corporate governance and earnings management are of immense importance. Corporate governance encompasses huge set of stakeholders and serves their interests. Enormous studies have examined the role of corporate governance mechanisms in reducing fraudulent financial reporting practices, increasing accounting quality, enhancing informative-ness of corporate disclosures and in increasing accounting conservatism. On the contrary, the phenomenon of earnings management shows its generous nature only to managers and provides them the opportunity to manipulate financial information according to their own will.

Another subset of empirical research that has gathered much interest over the last decade especially because of events surrounding the downfall of US corporations such as Enron and WorldCom relates to examining the potential relationship between corporate governance and earnings management as corporate governance is believed to curb earnings management. Prior studies have examined whether different corporate governance mechanisms, such as enhanced board independence, audit committees, audit quality etc. can curtail the level of earnings management or not.

This paper attempts to enrich the area of corporate governance and earnings management by providing detailed reviews of literature on corporate governance mechanisms (internal and external), distinct measures and incentives for earnings management and lastly, the relationship between corporate governance and earnings management. In our study, we have reviewed various journal articles in detail in order to draw conclusion about whether corporate governance can actually help to prevent earnings management.

STRUCTURE OF THE PAPER

- Conceptual framework of corporate governance
- Corporate governance mechanisms (external and internal)
- Earnings management and its measures
- Explore relationship between various corporate governance mechanisms and earnings management
- Conclusion

CONCEPTUAL FRAMEWORK OF CORPORATE GOVERNANCE

The area of corporate governance may be discussed by taking a narrow or a broad perspective depending upon the point of view of the researcher or policy maker. A narrow approach towards corporate governance restricts it to the relationship between a company and its shareholders (agency theory). On the other hand, the more inclusive broader approach to corporate governance sees it as a web of relationships between the company and a wide range of stakeholders apart from shareholders such as customers, suppliers, employees, bondholders etc. (stakeholder theory) (Feizizadeh, 2012). According to the Cadbury Committee Report (1992), corporate governance is the framework by which companies are controlled and directed. Parkinson (1994) defines corporate governance as the task of control and supervision undertaken to ensure that the actions of the company's management are intended to serve the interests of the shareholders. Corporate governance encompasses the entire set of cultural, legal and institutional arrangements that determine how companies are controlled (Blair, 1995). It aims to mitigate the conflict of interest between the suppliers of capital and the managers by ensuring that managers do not misuse capital for their own vested interests (Goergen, 2012). Further, it is designed to pursue stakeholders' interests, for instance by reducing the misappropriation of assets and achieving a reasonable return on capital (Shleifer & Vishny, 1997).

Another definition of corporate governance stresses on the importance of the role of shareholder activism in encouraging best practice. Shareholder activism enables the shareholders to exercise their rights as owners and hence, achieve change in corporations. La Porta, Lopez-de-Silanes, Shleifer, & Vishny (2000) suggest the legal protection of investors as a useful way of thinking about corporate governance. Empirical evidence also links strong investor protection to good corporate governance as reflected in dispersed ownership of shares, broad financial markets and efficient allocation of capital across firms. However, in emerging economies it is not always best to use the law to ensure effective corporate governance as other means such as reputation, trust and competition may be preferable (Allen, 2005).

Agency problems arise from the separation of ownership and control. Prior research on agency problems can be traced back to (Berle & Means, 1932). They discussed the extent to which there was a distribution of shareholding, as a result of which there was separation of ownership and control in the USA. Later, a detailed theoretical exposition of agency problem was given by (Jensen & Meckling, 1976) with further developments presented by (Fama & Jensen, 1983). Agency costs are the sum total of the monitoring expenses incurred by the shareholders (principal), the bonding expenditures by the managers (agent) such as disclosure of annual report and the residual loss that results from the reduction in welfare of the shareholders by this delegation of power to managers (Jensen & Meckling, 1976).

According to (Jensen, 1986), as managers (agent) have more inside information than the providers of capital (principal), these capital providers are compelled to incur an agency cost in order to monitor and supervise the managers' behaviour. This is necessary to ensure that the management does not pursue its self-interests of maximizing its own wealth at the expense of other stakeholders' interests. Corporate governance would reduce the agency problem between managers and capital providers and thus, enhance the efficiency of contracts (Gompers, Ishii , & Metrick, 2003).

CORPORATE GOVERNANCE MECHANISMS

They can be broadly divided into two types: internal and external. Internal mechanisms are determined by internal factors such as board composition, structure and characteristics, audit committee, ownership structure, and remuneration committee. The board and audit committee members are considered to be the ultimate guardians of financial reporting. External mechanisms are decided by external factors such as legal rules and regulation.

External Corporate Governance Mechanisms

It is argued that the magnitude of earnings management is correlated to the institutional arrangements of countries. According to Ball, Robin, & Wu (2003), the institutional setting of a nation is the leading factor in controlling managers' self-interest and reducing earnings management.

The legal enforcement of rights accorded to investors is necessary to ensure outsider investor protection. As per prior studies, countries with stronger legal systems & investor protection have lesser likelihood of managers diverting earnings or assets and improved quality of financial reporting (Burgstahler, Hail , & Leuz, 2006; Chin, Chen, & Hsieh, 2009).

Internal Corporate Governance Mechanisms

The board of directors is the core to corporate governance. The Cadbury Committee (1992) states that board independence is an important aspect of effective corporate governance. The emphasis on board independence is grounded in agency theory (Fama & Jensen, 1983; Shleifer & Vishny, 1997). Independent directors are generally considered to be better monitors as compared to other directors because they have the "ability to act with a view of the best interests of the corporation". TSEC (1994) provides evidence that the number of directors is an important factor influencing the effectiveness of the board. Further, more active boards, as proxied by the number of board meetings are also essential attributes of corporate governance (Xie, Davidson , & DaDalt, 2003).

According to Cohen, Hoitash, & Krishnamoort (2014), an audit committee's financial expertise can enhance the quality of financial information serve as effective monitors of corporate financial reporting. They can provide better accounting and financial advice to the board and better monitor the quality of external audit work.

EARNINGS MANAGEMENT

Earnings management research has a long and rich history drawing the attention of academic researchers, financial markets regulators, operators and investors. Financial statements are prepared and used by management to display accountability to shareholders. Accountability is measured from the financial performance achieved by the management reflected from the profit –loss generated. The agency conflict, opportunity, incentives, rationalization, capability among the managers, loopholes in the standards or the deviation from real operational activities promotes this situation to prolong. Loomis (1999) contends that earnings management is rampant and CEOs contour earnings management as an apparatus to ensure that firms meet their earnings expectations. According to Leuz, Nanda, & Wysocki (2003), earnings management is described as the modification of a firms' reported economic performance by insiders either to influence contractual outcomes or to mislead its stakeholders. Healy & Wahlen (1999) characterized earnings management as "exercising managerial judgement in structuring transactions so as to alter financial reports either to mislead stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers". Managers can project future economic events namely expected life of long-term assets, salvage value, asset impairment, deferred taxes, losses from bad debts and post-employment benefits etc. at their wisdom and can affect financial reports of the firm (Latif & Abdullah, 2015). Manager's discretion in deciding the choice of acceptable accounting method for depreciation computation namely straight line method or written down value method or inventory valuation such as LIFO, FIFO and average cost etc. or working capital management such as receivable policies, timing of inventory purchases and inventory levels etc. can have significant impact on recording transactions and accounting outcomes in different economic conditions either to increase or decrease income (Waweru & Riro , 2013). Thus, Agency theory (i.e. separation of ownership and control) is an important construct in understanding financial reporting incentives as these factors may have conflicting goals (Latif & Abdullah, 2015). Agency theory holds that, in the presence of information asymmetries, managers select and apply accounting estimates and techniques to achieve private control benefits and other self-interested objectives**.** In other words, divergence in goals may manifest as an inclination for managers to use their wisdom to appear earnings near target levels. Previous studies have explored variety of reasons for earnings management including information asymmetries, agency costs, job security, avoiding earnings losses and earnings decreases (Fields, Lys , & Vincent, 2001). Managers opportunistically manipulate accounting reports by managing accruals. However, Kaplan (1985) found that "normal" accruals arising in the ordinary course of business are unlikely to reflect managerial opportunistic behaviour. Rather, any manipulation of accounting information will most likely be apparent in "abnormal" accruals. Dechow, Sloan , & Sweeney (1995) explored various models to apportion total accruals into normal and abnormal components and concluded that Modified Jones Model is the most effective in identifying abnormal accruals likely to reflect earnings management.

Incentives for Earnings Management

There is ample rationale for managers to engage in earnings management as listed below:-

- Contractual motivation of managers as to maximise their bonuses (Healy, 1985)
- Higher price-to-earnings (Barth, Elliott , & Finn, 1999)
- Avoidance of losses (Burgstahler & Eames, 2010)
- Meeting analysts' forecasts (Burgstahler & Eames, 2006)
- Signal manager's private information (Louis, 2004)
- Incentives to report higher earnings with respect to various stakeholders as terms of transactions are generally more favourable for firms with higher rather than lower earnings (Bowen, DuCharme , & Shores, 1995)
- Initial public offerings (Ball & Shivakumar, 2008)
- Compensation contracts as top management compensation is linked to firm performance which is correlated to greater earnings management (Cohen, Dey, & Lys, 2008; Jiang, Petroni, & Wang, 2010)
- Managers judgement in structuring accounting transactions and reporting financial information (Rani, Hussain, & Chand, 2013)

Hence, earnings management infers a tactful conduct of managers and the very nature of accounting accruals and information asymmetry between managers and owners allow managers to exercise their prudence in determining the earnings to be reported in a given period. In situation of clash of interests between shareholders and managers, corporate governance design series mechanisms reconciling interests of shareholders and managers (Fama & Jensen, 1983; Hart, 1995), hence, inhibit management to maximize his or her utility function even at the expense of shareholder's wealth.

CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT

Previous research on corporate governance and earnings management can be mostly identified with developed countries like the UK, Canada or the US (including

(Beasley, 1996; Klein, 2002; Peasnell, Pope, & Young, 2005) as compared to studies from developing countries. Earnings management is significantly and negatively impacted by overall categories of corporate governance index represented by board of directors, board meetings, audit committee, nomination and compensation committee (Abbadi, Hijazi, & Al-Rahahleh, 2016).

Ownership Structure and Earnings Management

Ownership structure is an important matter as a new conflict of interests can arise between majority controlling shareholders and minority shareholders, since the fundamental agency problem for listed companies in emerging markets is not a conflict of interest between outside investors and managers as argued by (Berle & Means, 1932), but a conflict of interest between controlling shareholders and minority shareholders (Shleifer & Vishny, 1997). Major shareholders are more likely to prevent disclosure of proprietary information to the minority or the public and are better able to influence reporting policies of accounting information in order to fulfil vested interests, resulting in greater earnings management. Consequently, problems of lower earnings quality, greater earnings management, and less informative-ness are not due to poor accounting standards but largely due to poor corporate structure. Saiful (2018) & Boubaker & Sami (2011) were of the view that more concentrated share ownership, the smaller the practice of earnings management. They contended that concentrated ownership can be one of the internal mechanisms in the implementation of corporate governance to reduce earnings management practices. In contrast, institutional ownership will result in effective monitoring and supervision. Therefore, disciplining corporate managers will help in mitigating earnings management as these types of shareholders have incentives and capabilities to promote accurate reporting of earnings and discourage financial misreporting (Chung & Zhang, 2011).

Firms with higher dispersed ownership can reduce earnings management because no majority can control the operations of firms, thus reducing insider's incentive to conceal firm performance and enjoy private benefits. There is recent evidence that lower level of insider ownership is associated with less earnings management (Leuz, Nanda, & Wysocki, 2003; Dyck & Zingales, 2004). In contrast, Cornett, Marcus, & Tehranian (2008) indicates an entrenchment effect showing that with high levels of insider ownership (i.e. concentrated ownership) managers are more likely to manipulate earnings to make value maximizing decisions.

Board Size And Earnings Management

The number of board of directors also contributes in influencing the efficacy of the board (TSEC, 1994). But, unfortunately the literature provides no consensus about the direction of the relationship between board size and its effectiveness. Boards can become less effective in controlling management as board size increases due to problems of coordination and communication. A larger board is less likely to function effectively and it is easier for the chief executive officer (CEO) to control (Jensen, 1993). However, the results showing the impact of board size on earnings management are not so obvious. (Bhagat & Black, 1999; Minnick & Noga, 2010; Abed, Al-Attar, & Suwaidan, 2012) found a negative relationship between board size and earnings management arguing that less number of directors on the board will create better oversight function which will be more focused to restrain management from conducting earnings management. Singh, Aggarwal, & Anand (2017) found negative and statistically significant relationship indicating that increasing the size of the board leads to a reduction in the discretionary accruals. Bradbury, Mak, & Tan (2006) found no relation for firms in Malaysia and Singapore.

Board Independence and Earnings Management

Independence of the board from management is perhaps the most important internal governance measure designed to make boards more effective in monitoring managers and exercising control on behalf of shareholders as they do not pursue self-interests such as executive compensation and the misappropriation of assets, pressure from shareholders to meet or beat expectations of firm performance, need to maintain personal reputation to the public etc. In literature, results on the relationship between earnings management and board independence are conflicting. Beasley (1996) argued that board independence is imperative to oversee managerial activities in order to maintain the interest of investors and inclusion of large number of outside directors on the board could reduce the probability of manager's opportunistic behaviour. The monitoring that independent outside directors and financially sophisticated directors with corporate experience provide is likely to reduce the occurrence of earnings management (Xie, Davidson , & DaDalt, 2003). Klein, (2002) established a significant negative relationship between board independence and the magnitude of earnings management. Beasley (1996) concluded that there is a negative relationship between the percentage of non-executive board members and the possibility of fraud. Dechow, Sloan , & Sweeney (1996) found that corporations with a large percentage of non-executive members are less likely to be subject to accounting enforcement actions by the SEC for alleged GAAP violations. The broken trust theory (BT), highlights the importance of independence of board of directors because such a board is less likely to use creative accounting methods, thereby decreasing the possibility of earnings management. Studies have analysed whether the requirement of several independent directors has caused a fall in earnings management – some studies have discovered a negative relationship (Kent, Routledge, & Stewart, 2010), while others found that trying to have independent directors is a wasted exercise (Garg, 2007). Contrary to the general belief that outside directors improve the monitoring of managers, Park & Shin (2004) found that in Canada, adding outside directors do not help the board to reduce earnings management, especially in jurisdictions where ownership is highly concentrated (as is the case in Canadian firms). They found no evidence of a relationship between earnings management and the proportion of outside directors on the board. This is contrary to several existing studies in UK and US. Similarly, Bradbury, Mak, & Tan (2006) failed to establish any relationship between earnings management and board independence for firms in Singapore. Singh, Aggarwal, & Anand (2017) found negative and statistically significant indicating that increasing the number of independent directors on the board leads to a reduction in the discretionary accruals, hence showing that directors have independence in true sense and are effective.

CEO Duality and Earnings Management

CEO duality takes place when roles of the chairperson and the chief executive officer (CEO) are entrusted to one person (Cadbury, 1992). The chairman is responsible for managing the board whereas CEO is responsible for day-today management of the firm, including the enforcement of board decisions. Firms having role duality may have a powerful individual who has the ability to make decisions that may not maximize shareholders' wealth. As a result, chairman and CEO roles should be separated.

Moreover, according to stewardship theory, CEO duality could enhance a unified and strong leadership instead of weakening the independence of the board from management as well its monitoring role (Al-Rahahleh, 2017). CEO duality is significantly positively related to opportunistic managerial behaviour. This implies CEOs that also chair a firm's board may become heavily involved in earnings management to ensure that the firms remain attractive but not in case of low-growth firms (Lin & Hwang, 2010). Similar were the findings of (Iqbal, Xianzhi, & Jebran, 2015) who found CEO-chair duality to be positively associated with earnings management for companies listed on the Karachi Stock Exchange.

Audit Committee and Earnings Management

The audit committee is at the helm of overseeing the firm's financial reporting process, external audit and internal control systems (including internal audit). In addition, it may prevent fraudulent accounting statements (i.e., malfeasance of management or the outside auditor) causing earnings management by means of supervising implementation of external audit. Antle & Nalebuff (1991) concluded that these differences may result either in the auditor being dismissed or, more likely, in a negotiated final financial report. Xie, Davidson, & DaDalt (2003) proved that the existence of audit committees activity and their members' financial sophistication were important factors in restraining the propensity of managers to engage in earnings management. Luthan, Satria, & Ilmainir, (2016) proved that existence of audit committee has negative and significant impact on discretionary accruals. Audit committee size and gender have a negative and significant relationship with real earning management (Rahahleh, Hamzah , & Rashid , 2022). Marzuki (2022) also found positive relationship between audit committees and analyst forecast errors advocating the belief that higher number of audit committees promotes earnings management. The annual report preparation is supervised by the audit committee (Al-Shaer & Zaman, 2021). Along with mitigation of earnings management practices, the audit committee's responsibility is to assure the accurate measurement of the annual reports. If the audit committee handles its tasks and responsibilities efficiently, the ability of earnings management is decreased to a large extent (Mardessi & Fourati, 2020).

Audit Committee Independence and Earnings Management

Audit committee independence is significantly negatively related to discretionary accruals (Bhagat & Black, 1999; Klein, 2002; Minnick & Noga, 2010; Latif & Abdullah, 2015; Luthan, Satria, & Ilmainir, 2016). The presence of outside members on the committee strengthens its effective oversight focusing on the overall performance, thus reducing the likelihood of corporate failure and financial fraud. Thus, an independent audit committee is likely to prove an effective corporate governance mechanism and ensure financial reports remain neutral. Xie, Davidson , & DaDalt (2003) displayed a negative association between earnings management and the presence of corporate executives and investment bankers on audit committees. According to Klein, (2002), an independent audit committee is best able to serve as an active controller of the financial accounting process. On the contrary, Singh, Aggarwal, & Anand (2017) empirically confirmed a positive and statistically significant showing that audit committee independence increases earnings management.

Audit Quality and Earnings Management

Luthan, Satria, & Ilmainir (2016) found significantly negative relationship between earnings management and audit quality. Audit is expected to act as a constraint to managerial discretion in reporting earnings and to improve the reliability and the quality of the financial information. This affirmation is provided by three sub-roles of the audit function: (i) the *information role*, which improves the credibility of accounting information and helps to reduce financing costs (Kim, Chung , & Firth, 2003) (ii) the *monitoring role*, which helps to improve the quality of the accounting information, by reducing the opportunistic behaviour of managers (Dedman & Kausar, 2012)and (iii) the *insurance role*, which guarantees that users can rely on the audited financial information because of the responsibility auditors assume in case of audit failures (Mansi, Maxwell, & Mille, 2004). Audit is the process whereby outsiders give approval to the financial statements and helps to reduce dissonance information relating to managers and shareholders.

Female Representation on Boards and Audit Committees and Earnings Management

Many studies have investigated how gender of the board and audit committee directors influences their ability to supervise the financial reporting process. According to Adams & Ferreira (2009), female directors can better oversee and supervise managers' behaviour through board input such as board attendance and are inclined to head monitoring-related committees. Female directors can often be more capable of improving the earnings quality of firms, as they tend to have better communication skills, hold more informed discussions, and possess better independent thinking, thereby contributing to better monitoring of the managers (Adams & Ferreira, 2009; Adams, Gray, & Nowland, 2010; Srinidhi, Gul, & Tsui, 2011). Women in top management made an important contribution in corporate business, especially in the financial sector due to strength of women that are deemed better than men and subsequently reduce earnings management practices (Gull, Nekhili, Nagati, & Chtioui, 2018; Zalata , Tauringana, & Tingbani, 2018).

Compensation/ Remuneration Committee and Earnings Management

The compensation committee plays a significant role in corporate governance. One of its major responsibilities is to review and recommend executive and top management compensation including salary, perquisites, incentives and other benefits. As discussed in the previous section, compensation motivation is one of the major incentives for managers to manage earnings. They are likely to inflate earnings in order to earn higher bonuses. In fact, Lambert & Larcker (1987) empirically confirmed a positive association between executive compensation and reported earnings. Dechow , Huson & Sloan (1994) found that compensation committees do adjust the earnings-based incentive compensation in order to prevent executives from serving their vested interest. According to Cheng, (2004), stock exchanges in UK and US require listed firms to ensure that their compensation committees include a specific proportion of independent directors in order to control the managers' opportunistic behaviour such as reducing R&D expenditure and overpaying themselves. Several findings provide evidence that a well-functioning compensation committee is able to identify opportunistic earnings management and pricing in fixing top management compensation.

CONCLUSION

The relevance of this paper can be traced to the history of corporate scams and failures and the growing literature on it. The massive downfall of major firms in the past such as Enron, Swiss Air and Satyam Computers etc. has shattered investor's confidence. Surprisingly, these violations were occurring even when the corporate governance mechanisms were very much in place in these firms. The question of how to nip this evil in the bud remains elusive. Of course, it has resulted in growing focus on corporate governance and its mechanisms. This marked upswing is reflected in growing literature on the subject in recent times. As the attention of the various stakeholders increased the causes of downfall of these empires came under scanner. Earnings Management is one of the most prominent one amongst these. Clearly, earnings management can undermine the credibility of financial statements thus misleading investors and other stakeholders.

Prior researches have shown that good quality corporate governance has a noteworthy influence in limiting earnings management practices. Countries with stronger legal systems & investor protection have reduced earnings management and improved quality of financial reporting. Firms with higher dispersed ownership can reduce earnings management because no majority can control the operation of firms, thus lessening insider's incentive to disguise firm performance and enjoy private benefits. Literature provides no consensus about the direction of the relationship between board size and its effectiveness. Results on the relationship between earnings management and board independence are conflicting. However, the most recent studies empirically confirmed a negative and statistically significant relationship suggesting that increasing the number of independent directors on the board leads to a contraction in the discretionary accruals, hence proving the director's independence in true sense.

An audit committee oversees the internal control for financial reporting and the quality of financial information and presence of outside members on the audit committee strengthens its effective oversight focusing on the overall performance, thus reducing the likelihood of corporate failure and financial fraud. It is anticipated that the quality of audit will enhance the reliability and quality of financial information. Female directors have better communication skills, hold more informed discussions, and possess better independent thinking, thereby contributing to better monitoring of the managers. This review paper has important implications for policy makers, researchers and practitioners as it evidences how different attributes of corporate governance influence earnings management. This will help to reduce distortions in financial reporting and therefore, enhance the reliability and transparency of reported financial statements.

The writing is clear on the wall. Robust systems and processes are indeed the prerequisites to measuring such complex phenomenon even if it is do not capture the nuances, the efforts should continue. As researchers we do believe that what gets measured gets managed. On that optimistic note we would like to conclude that the attempts to instil healthy and good corporate governance practices should continue. The extant literature and its survey by the researchers abundantly proves that certain practices and processes can help curb unhealthy practices especially earnings management. The Governments, regulators, stakeholders and the practitioners may take note and exercise their powers to ensure that good governance gets embedded in the fabric of the firms and not remain simply a compliance routine. The contributions to the theory of good corporate governance must come from different disciplines allowing a 360° view of the issues and the solutions thereof.

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