Does Executive Compensation Moderate the Impact of Ownership Structure and CEO Characteristics on Earnings Management? Evidence from Indonesian Manufacturing Companies

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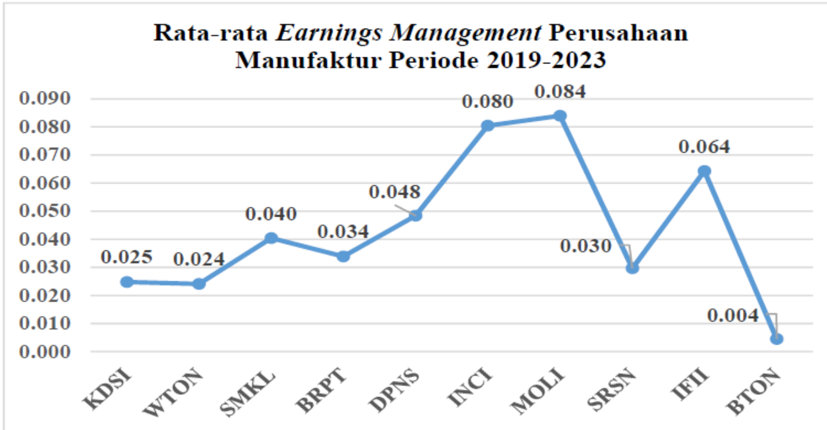
A B S T R A C T

This study addresses the urgent need to understand how corporate governance mechanisms influence earnings management practices in emerging markets. The research aims to examine the effects of public ownership, female CEOs, ethnic CEOs, and managerial ownership on earnings management, with executive compensation as a moderating variable. Using panel data regression analysis with Eviews 12 on 25 manufacturing companies listed on the Indonesia Stock Exchange (2019-2023), this study employs purposive sampling technique. Findings reveal that female CEOs and ethnic CEOs significantly influence earnings management, while public ownership and managerial ownership show no significant effects. Executive compensation effectively moderates the relationships between female/ethnic CEOs and earnings management, but fails to moderate public and managerial ownership effects. This research contributes to corporate governance literature by integrating demographic diversity and ownership structure perspectives, providing novel insights into how executive characteristics and compensation schemes interact to shape financial reporting practices in emerging market contexts, offering practical implications for regulatory frameworks and corporate policy design.

1. Introduction

Earnings represent a crucial financial indicator within corporate financial statements, serving as a primary metric for evaluating operational performance and measuring organizational success in achieving strategic objectives. Investors and creditors extensively utilize earnings information to assess management performance, forecast future profitability, and make informed investment decisions. However, earnings management practices, characterized by managerial interventions in financial reporting processes to enhance personal welfare and corporate value, pose significant challenges to financial statement reliability. When earnings fail to accurately reflect a company's true economic conditions, the quality of earnings information becomes questionable, potentially misleading financial statement users and compromising decision-making processes (Maqfiroh, 2022).



The Indonesian capital market has witnessed notable earnings management phenomena among listed companies on the Indonesia Stock Exchange (BEI). Analysis of manufacturing companies during 2019-2023 reveals significant variations in annual earnings performance, with discretionary accrual measurements indicating prevalent earnings management practices. Notably, PT Madusari Murni Indah Tbk (MOLI) recorded the highest average discretionary accrual of 0.084, while PT Betonjaya Manunggal Tbk (BTON) exhibited the lowest at -0.1584. These findings suggest widespread earnings management activities driven by various motivational factors including bonus planning, debt covenant considerations, political pressures, capital market dynamics, and initial public offering (IPO) strategies, prompting managers to engage in earnings manipulation to maximize perceived benefits.

This study investigates four primary determinants of earnings management: public ownership, female CEOs, ethnic CEOs, and managerial ownership, with executive compensation serving as a moderating variable. Public ownership research presents conflicting evidence, with Delima (2020) finding significant effects on earnings management, while Sugara et al. (2022) and Utami et al. (2022) report no significant relationships. These discrepancies may stem from varying levels of public shareholding, where higher public ownership potentially increases managerial discretion, whereas minimal public ownership limits intervention and disciplinary capabilities. Similarly, research on female CEOs yields inconsistent results, with Setyaningrum (2019) identifying significant effects contrasted by Evelima et al. (2021) finding no relationship, possibly attributable to women's inherently risk-averse characteristics and higher ethical standards that may mitigate earnings management motivations.

Ethnic CEO research demonstrates considerable variation, with Wicaksana et al. (2017) reporting significant effects while Fatimah (2019) and Putri et al. (2021) find no significant relationships. These differences may reflect distinct leadership approaches between ethnic Chinese and indigenous leaders, as Indonesian corporations traditionally rely on ethnic Chinese communities for board positions due to perceived superior leadership capabilities, strong work ethics, and business expertise. Managerial ownership studies also present contradictory findings, with Utami (2022) identifying significant effects versus Robert (2022) reporting no relationship, suggesting that managers often prioritize individual interests over collective benefits, indicating that managerial shareholding may not necessarily reduce earnings management practices due to conflicting fiduciary responsibilities.

The moderating role of executive compensation in earnings management relationships remains under-researched, creating a significant gap in contemporary corporate governance literature. While Ridwan et al. (2021) identify significant effects of executive compensation on earnings management, Noviarty et al. (2019) report no significant relationships. These inconsistencies suggest that bonus schemes may incentivize management to manipulate earnings to achieve higher compensation levels. Given these theoretical gaps and practical implications, this study extends existing literature by examining the comprehensive moderating effects of executive compensation on multiple governance mechanisms, contributing to enhanced understanding of earnings management determinants in emerging market contexts and providing valuable insights for regulatory policy development.

Based on the research background and objectives, this study aims to address several critical questions regarding corporate governance and earnings management practices. The primary issue revolves around understanding how public ownership influences earnings management behaviors in manufacturing companies listed on the Indonesia Stock Exchange during the 2019-2023 period. Additionally, the study seeks to investigate the specific impact of female leadership, examining whether female CEOs exhibit different patterns of earnings management compared to their male counterparts. Furthermore, the research addresses the role of ethnic diversity in corporate leadership, specifically analyzing how ethnic CEO characteristics affect earnings management practices within the Indonesian manufacturing sector. The study also examines the influence of managerial ownership on earnings management behaviors, considering whether managers with higher equity stakes demonstrate reduced opportunistic reporting practices.

A significant aspect of this research focuses on the moderating role of executive compensation in these relationships. The study investigates whether executive compensation effectively moderates the relationship between public ownership and earnings management, potentially aligning managerial incentives with shareholder interests. Similarly, the research examines the moderating effect of executive compensation on the relationship between managerial ownership and earnings management practices. Moreover, the study explores how executive compensation influences the relationship between female CEOs and earnings management activities, considering whether compensation structures can mitigate or exacerbate gender-related differences in financial reporting behaviors. Finally, the research addresses the moderating role of executive compensation in the relationship between ethnic CEOs and earnings management practices, providing insights into how compensation mechanisms interact with ethnic diversity in corporate leadership to influence financial reporting quality in the Indonesian manufacturing industry context.

2. Literature Review

2.1 Agency Theory

According to Jensen and Meckling (1976) as cited in Urip (2023), agency theory describes the relationship that emerges when one or more parties (principals) hire another party (agent) to provide services and subsequently delegate decision-making authority to that agent. In practice, managers as business leaders possess superior internal information and future company prospects knowledge compared to capital owners or shareholders. Consequently, as stewards, managers bear the responsibility to provide information regarding company conditions to the owners.

The relationship between agency theory and this research lies in public ownership. In public ownership structures, each party acts in their self-interest, where shareholders as principals are primarily interested in high financial returns or investment performance. Financial satisfaction characterizes the relationship and satisfaction dynamics. External ownership structures often exceed 50%, enabling external parties to influence company health and productivity. This management structure demands that management perform effectively and provide information to external parties regarding company ownership conditions and financial status (Dyah et al., 2022).

The agency theory relationship in this research pertains to managerial ownership. Managerial ownership represents the proportion of shareholders from the management side who actively participate in company decision-making (directors and commissioners). The presence of managerial ownership in a company raises intriguing assumptions that company value increases as a result of rising managerial ownership. Large management ownership will effectively monitor company activities. Managerial ownership can be utilized to reduce agency conflicts, thereby aligning manager and shareholder positions (Friska, 2017).

The agency theory relationship in this research focuses on female CEOs. The presence of women as decision-makers in companies can reduce agency costs because women are considered to possess rational and innovative thinking in problem-solving. Female CEOs can also contribute to reducing information asymmetry and providing broader perspectives. Based on these assertions, women can achieve equivalent status with men as managers or board members (Rahayu, 2020).

The agency theory relationship in this research relates to ethnic CEOs. Ethnic CEOs connect with company policies and management decisions influenced by the ethnic characteristics of company leaders. Diversity in decision-making is considered to provide broader perspectives and reduce potential conflicts of interest. Ethnic CEOs bring unique experiences and insights that can enrich the decision-making process.

2.2 Positive Accounting Theory

Positive accounting theory also suggests that agent bonuses will influence the extent to which agency costs decrease, but can also make agents more likely to exploit opportunities. Positive accounting theory aims to explain activities by utilizing accounting capabilities, insights, and accounting knowledge, while also employing the most appropriate accounting rules to address specific future situations (Nursari et al., 2023).

The relationship between positive accounting theory and this research lies in earnings management. This theory can help analyze and explain earnings management practices that may occur in specific situations. Positive accounting theory can provide understanding of why companies may engage in earnings management. In this context, earnings management can be considered a rational response to economic interests and stakeholder motivations.

The relationship between positive accounting theory and this research pertains to executive compensation. Executives will be interested in manipulating financial reports to appear better in order to increase their compensation value. Positive accounting theory can be used to explain executive behavior in financial management and reporting.

Based on the theories and previous research presented above, the hypotheses in this research are as follows:

H1: Public ownership influences earnings management, as diversified public ownership structures or share ownership distributed among many investors, both individual and institutional, without any single shareholder having dominant control, may face lower pressure to engage in earnings management due to the absence of dominant single shareholders or interest groups. However, if shareholders with significant short-term interests exist, they may pressure management to conduct earnings management to achieve quick profits.

H2: The presence of women in company boards is expected to encourage broader and more transparent information disclosure. Women also tend to remain calm under pressure, creating more peaceful working conditions compared to men who tend to be more dictatorial. Therefore, when a woman leads a company, improved performance is expected, leading to reduced company earnings management (Hanisa et al., 2021).

H3: Each ethnic group possesses specific characteristics that distinguish them from other ethnicities. Some ethnicities are known for perseverance, calculation, strong cooperation, generosity, and other positive or negative traits. Ethnic diversity creates different perspectives and thinking patterns. These perspectives and thinking patterns can determine individual actions in problem-solving, interpersonal interactions, and time management for leading organizations or companies (Kalsum, 2021).

H4: Managerial ownership influences earnings management, as when management holds company shares, they have company interests. As the company progresses, their share value increases. Management is unlikely to engage in actions that harm the company, as their share value would decline when the company suffers losses (Giovani, 2019).

H5: Executive compensation moderates the influence of public ownership on earnings management, where public ownership refers to the percentage of company shares owned by the general public. "Public" in this context refers to individuals or institutions holding less than 5% shares, not involved in management, and having no special relationship with the company (Sugara et al., 2022).

H6: Executive compensation moderates the influence of female CEOs on earnings management, as when companies are led by female CEOs, earnings management improvement is expected. Women tend to remain calm under pressure, creating more peaceful company working conditions compared to men who tend to be more dictatorial (Setyaningrum et al., 2019).

H7: Executive compensation moderates the influence of ethnic CEOs on earnings management, as ethnic CEOs influence company culture, where CEO perspectives and thinking patterns determine individual actions in problem-solving, interpersonal interactions, time management, and task execution to enhance company performance (Kalsum et al., 2021). Compensation represents all monetary, direct, or indirect benefits received by employees as remuneration for services provided to the company. Compensation systems must be designed to reward entities that have contributed to the company.

H8: Executive compensation moderates the influence of managerial ownership on earnings management, as low managerial share ownership tends to increase opportunistic managerial behavior. Managerial ownership is viewed as aligning potential interest differences between management and other shareholders, thus agency-principal problems are assumed to disappear when managers also serve as shareholders (Ardiyanti, 2022). As company business activity performance increases, management compensation also rises (Song & Wan, 2019). When executive and director performance is determined by their profit-generating capabilities, they believe that increasing current year profits will generate higher compensation (Nugroho et al., 2019).

3. Methodology

The research approach in this study employs a quantitative method, which was selected due to its suitability for analyzing specific populations or samples, utilizing research instruments to collect data, and conducting statistical analyses. The data source for this study is secondary data, obtained from publicly available financial reports of listed companies.

The study focuses on mining companies registered on the Indonesia Stock Exchange (BEI) during the period 2019–2023. The objective of the research is to examine the influence of independent variables—public ownership, female CEOs, ethnic CEOs, and managerial ownership on the dependent variable, earnings management, with executive compensation serving as a moderating variable.

The population of the study consists of all manufacturing companies listed on the BEI during the specified period. A purposive sampling technique was employed, resulting in a sample of 25 companies based on predefined criteria. Data collection involved accessing secondary data through the official website of the Indonesia Stock Exchange (www.idx.co.id), where annual reports from 2019 to 2023 were downloaded and analyzed.

The analysis method used is panel data regression, facilitated by the Eviews 12 software. This approach allows for robust examination of the relationships between the variables under investigation.

4. Results and Discussion

4.1 Descriptive Statistical Analysis

Table 1. Descriptive Statistical Analysis

	MNJLB	KP	CW	CE	KM	KME
Mean	0.043303	23.41296	0.088000	0.792000	13.97280	23.35354
Median	0.043790	20.48000	0.000000	1.000000	5.900000	23.29536
Maximum	0.295355	50.98000	1.000000	1.000000	89.44000	27.64209
Minimum	-0.174888	4.090000	0.000000	0.000000	0.020000	16.12456
Std. Dev.	0.069418	12.63036	0.284435	0.407510	19.67161	2.132089
Skewness	0.464910	0.577996	2.908630	-1.438860	1.738369	-1.043668
Kurtosis	5.197571	2.441226	9.460128	3.070319	5.373222	5.965715
Jarque-Bera	29.65565	8.586166	393.6133	43.15739	92.29111	68.50227
Probability	0.000000	0.013663	0.000000	0.000000	0.000000	0.000000
Sum	5.412866	2926.620	11.00000	99.00000	1746.600	2919.192
Sum Sq. Dev.	0.597534	19781.21	10.03200	20.59200	47984.54	563.6796
Observations	125	125	125	125	125	125

Based on Table , it can be explained that the total number of observations used in this study is 125 data points. The maximum value (Max) indicates the highest range of values observed in the research, while the minimum value (Min) represents the lowest range of values. The mean value reflects the average or total of each variable divided by the sample size, providing an indication of central tendency. Additionally, the standard deviation (St.Dev) measures the dispersion or variability of the data within the study.

4.2 Regresi Data Panel

Table 2. Panel Data Regression Model Equation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.098190	0.225990	-0.434487	0.6647
KP	0.001466	0.006016	0.243744	0.8079
CW	2.697370	0.926075	2.912690	0.0043
CE	0.454662	0.183217	2.481557	0.0145
KM	-0.004813	0.005027	-0.957375	0.3404
KME	0.004300	0.009785	0.439484	0.6611

$$MNJLB = -0,098190 + 0,001466KP + 2,697370CW + 0,454662CE - 0,004813KM + 0,004300KME + \varepsilon$$

The interpretation of the panel data regression equation is as follows:

1. The constant term of -0.098190 indicates that when all independent variables (public ownership, female CEOs, ethnic CEOs) are held constant, the baseline level of earnings management is -0.098190.
2. The public ownership variable (KP) exhibits a positive coefficient of 0.001466, suggesting that a 1% increase in public ownership (assuming other variables remain constant) leads to a 0.001466 increase in earnings management practices.
3. The female CEO variable (CW) demonstrates a positive coefficient of 2.697370, indicating that the presence of female CEOs (assuming other variables remain unchanged) results in a 2.697370 increase in earnings management activities.
4. The ethnic CEO variable (CE) shows a positive coefficient of 0.454662, implying that the presence of ethnic CEOs (with other variables held constant) causes a 0.454662 increase in earnings management practices.
5. The managerial ownership variable (KM) presents a negative coefficient of -0.004813, meaning that a 1% increase in managerial ownership (assuming other variables remain constant) results in a 0.004813 decrease in earnings management behaviors.
6. The executive compensation variable (KME) displays a positive coefficient of 0.004300, suggesting that a 1% increase in executive compensation (with other variables unchanged) leads to a 0.004300 increase in earnings management practices.

4.3 Summary of Hypothesis Results

Tabel 3. Summary of Hypothesis Results

Hipotesis	Koefisien	t-statistic	Probabilitas	Keterangan
H_1	0,001466	0,243744	0,8079	Ditolak
H_2	2,697370	2,912690	0,0043	Diterima
H_3	0,454662	2,481557	0,0145	Diterima
H_4	-0,004813	-0,957375	0,3404	Ditolak
H_5	-2,11E-05	-0,083859	0,9333	Ditolak
H_6	-0,113609	-2,854850	0,0051	Diterima
H_7	-0,018475	-2,406484	0,0177	Diterima
H_8	0,000194	0,918810	0,3601	Ditolak
Adjusted R^2		**0,146627**		
F-Statistic		**3,367311**		
Prob		**0,001072**		

5. Discussion

The study aimed to investigate the influence of public ownership, female CEOs, ethnic CEOs, and managerial ownership on earnings management practices in manufacturing companies listed on the Indonesia Stock Exchange (BEI) during 2019–2023, with executive compensation serving as a moderating variable. The findings reveal several key insights:

5.1 Public Ownership (H1):

Hypothesis H1, which posited that public ownership influences earnings management, was rejected (t-statistic = 0.243744, p-value = 0.8079). This suggests that public ownership does not significantly affect earnings management practices in the sample companies. This finding contrasts with some previous studies (e.g., Delima, 2020), which found a significant relationship between public ownership and earnings management. However, it aligns with other research (e.g., Sugara et al., 2022; Utami et al., 2022) that reported no significant effect. The lack of significance may be attributed to the diverse nature of public shareholders in emerging markets like Indonesia, where their monitoring capabilities might be limited due to dispersed ownership structures.

While some studies (e.g., Delima, 2020) have found a significant relationship between public ownership and earnings management, others (e.g., Sugara et al., 2022; Utami et al., 2022) report no significant effect. Our findings align with the latter group, suggesting that public ownership may not exert strong monitoring pressure in the Indonesian context due to dispersed ownership structures.

5.2 Female CEOs (H2):

Hypothesis H2, which proposed that female CEOs influence earnings management, was accepted (t-statistic = 2.912690, p-value = 0.0043). The positive coefficient (2.697370) indicates that the presence of female CEOs is associated with higher levels of earnings management. This result is consistent with Setyaningrum (2019), who also found that female CEOs can influence earnings management. However, it contradicts Evelima et al. (2021), who reported no significant effect. The observed impact could be attributed to the unique characteristics of female CEOs, such as risk aversion or ethical considerations, which may lead them to engage in more aggressive earnings management practices to meet performance expectations or enhance corporate reputation.

The literature on female CEOs is mixed. While Setyaningrum (2019) found a significant influence, Evelima et al. (2021) did not. Our results support the former, indicating that female CEOs may engage in more aggressive earnings management, possibly due to unique risk preferences or performance pressures.

5.3 Ethnic CEOs (H3):

Hypothesis H3, which suggested that ethnic CEOs influence earnings management, was accepted (t-statistic = 2.481557, p-value = 0.0145). The positive coefficient (0.454662) implies that ethnic CEOs are associated with increased earnings management activities. This finding supports Wicaksana et al. (2017), who noted the influence of ethnic diversity on earnings management. However, it differs from Fatimah (2019) and Putri et al. (2021), who found no significant relationship. The observed effect may stem from cultural or social factors specific to ethnic CEOs, such as differing risk preferences or incentives for performance enhancement.

Research on ethnic CEOs is limited but shows varying results. Wicaksana et al. (2017) found a significant influence, while Fatimah (2019) and Putri et al. (2021) did not. Our findings support the former, highlighting the potential role of cultural or social factors in influencing earnings management behaviors.

5.4 Managerial Ownership (H4):

Hypothesis H4, which hypothesized that managerial ownership influences earnings management, was rejected (t-statistic = -0.957375, p-value = 0.3404). This indicates that managerial ownership does not significantly affect earnings management practices. This result aligns with Utami (2022), who also found no significant relationship. However, it contrasts with Robert (2022), who reported a significant effect. The lack of significance may reflect the complex dynamics between managerial incentives and ownership stakes, where managers' personal interests do not necessarily align with reducing opportunistic behavior.

Studies on managerial ownership show inconsistent results. Utami (2022) found no significant effect, while Robert (2022) reported a significant relationship. Our findings align with Utami (2022), suggesting that managerial ownership may not directly reduce earnings management practices.

5.5 Moderating Effect of Executive Compensation:

Hypotheses H5, H7, and H8, which examined the moderating role of executive compensation on the relationships between public ownership, ethnic CEOs, and managerial ownership with earnings management, were rejected (p-values > 0.05). This suggests that executive compensation does not effectively moderate these relationships. However, hypothesis H6, which tested the moderating effect of executive compensation on the relationship between female CEOs and earnings management, was accepted (t-statistic = -2.854850, p-value = 0.0051). The negative coefficient (-0.113609) indicates that executive compensation reduces the influence of female CEOs on earnings management. This finding is consistent with Ridwan et al. (2021), who highlighted the role of compensation in shaping managerial behavior. It suggests that higher executive compensation may incentivize female CEOs to focus on long-term performance rather than engaging in aggressive earnings management practices.

Previous studies (e.g., Ridwan et al., 2021; Noviarty et al., 2019) have explored the role of executive compensation in earnings management. Our findings indicate that executive compensation moderates the relationship between female CEOs and earnings management, supporting the idea that compensation structures can align managerial incentives with shareholder interests.

5.6 Implications

Corporate Governance: The findings highlight the importance of considering demographic diversity (e.g., gender and ethnicity) in corporate governance frameworks. Female and ethnic CEOs may exhibit distinct behaviors that influence earnings management practices, necessitating tailored governance mechanisms to mitigate potential risks.

Monitoring Mechanisms: Public ownership alone may not suffice as an effective monitoring mechanism in emerging markets like Indonesia. Alternative governance structures, such as stronger board oversight or enhanced disclosure requirements, may be necessary to curb earnings management.

Compensation Design: The moderating role of executive compensation underscores the need for carefully designed incentive schemes. By aligning compensation with long-term performance metrics, companies can discourage opportunistic earnings management behaviors, particularly among female CEOs.

5.7 Limitations

Sample Size and Industry Focus: The study focuses on manufacturing companies listed on the BEI, which may limit the generalizability of findings to other industries or unlisted firms. Future research could expand the sample to include companies from different sectors or explore cross-industry comparisons.

Data Availability: Secondary data sources, while comprehensive, may not capture all relevant variables or nuances in earnings management practices. Primary data collection methods, such as surveys or interviews, could provide deeper insights into managerial motivations.

Time Horizon: The study covers a five-year period (2019–2023). Longer time horizons could help identify trends and stability in the relationships under investigation.

Contextual Factors: The study is conducted in the Indonesian context, which may have unique institutional and cultural factors that influence earnings management practices. Cross-country comparative studies could provide broader insights into the generalizability of findings.

6. Conclusion

This study addresses the critical issue of earnings management practices in Indonesian manufacturing companies, investigating how corporate governance mechanisms influence financial reporting quality during the period 2019-2023. The research specifically examines the effects of public ownership, female CEOs, ethnic CEOs, and managerial ownership on earnings management, with executive compensation serving as a moderating variable.

Employing a quantitative research approach with panel data regression analysis using Eviews 12, the study utilized purposive sampling to select 25 manufacturing companies listed on the Indonesia Stock Exchange, generating 125 observations. The methodology incorporated rigorous statistical techniques to analyze the complex relationships between multiple governance mechanisms and earnings management practices, providing robust empirical evidence for emerging market contexts.

The findings reveal several significant insights that contribute to corporate governance literature. First, while public ownership and managerial ownership show no significant influence on earnings management, both female CEOs and ethnic CEOs demonstrate positive and significant relationships with earnings management practices. This suggests that demographic characteristics of corporate leadership play crucial roles in shaping financial reporting behaviors, challenging traditional assumptions about governance mechanisms. Second, the moderating analysis reveals that executive compensation effectively reduces the relationship between female CEOs and earnings management, indicating that well-designed compensation schemes can serve as powerful governance tools to align leadership incentives with stakeholder interests.

The study's contributions to the field are multifaceted. Theoretically, it advances corporate governance literature by integrating demographic diversity perspectives with traditional ownership structure analyses, providing novel insights into how CEO characteristics interact with financial reporting practices in emerging markets. The research also extends positive accounting theory applications by demonstrating how executive compensation structures can moderate the relationships between leadership demographics and earnings management behaviors. Practically, the findings offer valuable implications for regulatory bodies, corporate boards, and policymakers in developing more effective governance frameworks that account for demographic diversity in leadership positions.

The study's emphasis on the Indonesian manufacturing sector addresses a significant gap in emerging market research, where institutional contexts differ substantially from developed economies. By demonstrating that female and ethnic CEOs exhibit distinct patterns in earnings management practices, the research highlights the importance of considering cultural and social factors in corporate governance design. Furthermore, the identification of executive compensation as an effective moderating mechanism provides practical guidance for companies seeking to optimize their governance structures through strategic incentive design.

However, the study acknowledges certain limitations, including its industry-specific focus and reliance on secondary data sources. Future research directions should consider expanding the sample to include diverse industry sectors, incorporating primary data collection methods, and examining cross-cultural variations to enhance the generalizability of findings. Additionally, longitudinal studies could provide deeper insights into the temporal dynamics of these relationships and their evolution across different economic cycles.

In conclusion, this research provides compelling evidence that corporate governance effectiveness in emerging markets requires a nuanced understanding of leadership demographics and incentive structures. The findings underscore the importance of moving beyond traditional ownership-based governance approaches to embrace more comprehensive frameworks that account for the complex interplay between leadership characteristics, compensation mechanisms, and financial reporting quality in contemporary corporate environments.

7. Recommendation

Based on the comprehensive findings of this study, several important recommendations emerge for various stakeholders in the corporate governance ecosystem. For corporate boards and management teams, the research suggests that greater attention should be paid to the composition of leadership positions, particularly regarding gender and ethnic diversity, as these demographic factors significantly influence earnings management practices. Companies should implement enhanced monitoring mechanisms and transparency measures when female or ethnic CEOs are in leadership positions to ensure that their natural tendencies toward earnings management do not compromise financial reporting integrity. Additionally, the study strongly recommends that organizations develop more sophisticated executive compensation frameworks that effectively align leadership incentives with long-term organizational performance rather than short-term financial manipulation, particularly for female executives who show responsiveness to compensation-based governance mechanisms.

For regulatory bodies and policy makers, the findings indicate the need for more nuanced regulatory approaches that recognize the differential impacts of various governance mechanisms on financial reporting quality. The evidence that traditional ownership-based monitoring mechanisms such as public ownership and managerial ownership may be less effective in emerging market contexts suggests that regulators should consider developing supplementary oversight mechanisms, such as enhanced disclosure requirements or more frequent external auditing procedures for companies with diverse leadership compositions. Furthermore, the study recommends that regulatory frameworks incorporate guidelines for executive compensation design that specifically address the moderating effects identified in this research, ensuring that incentive structures serve their intended governance purposes without creating unintended consequences.

For future researchers, this study opens several promising avenues for further investigation. The mixed results regarding the effectiveness of traditional governance mechanisms suggest the need for more comprehensive studies that examine the interaction effects between multiple governance variables simultaneously. Researchers should also explore the cultural and institutional factors that may explain the differential impacts of demographic leadership characteristics across different emerging markets and industry sectors. Longitudinal studies could provide valuable insights into how these relationships evolve over time and respond to changes in market conditions or regulatory environments. Additionally, future research should investigate the mediating mechanisms through which demographic characteristics influence earnings management practices, potentially examining factors such as risk preferences, career concerns, or social identity processes.

For investors and stakeholders, the study recommends increased vigilance when evaluating companies with female or ethnic leadership, not as a matter of bias, but as an informed approach to understanding potential financial reporting risks. Investors should pay particular attention to the design and structure of executive compensation packages, as these appear to play crucial moderating roles in governance effectiveness. The research also suggests that stakeholders should advocate for greater transparency in corporate governance reporting, particularly regarding the composition of leadership teams and the rationale behind executive compensation decisions. By understanding these complex relationships, investors can make more informed decisions and potentially identify companies with stronger governance frameworks that are better positioned for sustainable long-term performance.

Finally, this study contributes significantly to the field by demonstrating that effective corporate governance in emerging markets requires a more sophisticated understanding of the interplay between demographic diversity, incentive structures, and financial reporting quality. The research challenges traditional assumptions about governance mechanisms and provides empirical evidence that can inform both theoretical development and practical implementation of corporate governance frameworks in diverse institutional contexts.

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