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Earning Management and Firm Value: A Systematic Literature Review

Ade Sintya Lindora
 Perbanas Institute, DKI Jakarta, Indonesia

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Corresponding Author:
 Author Name*: Uummy Kalsum
 Email*:
cynthialindora@gmail.com

Abstrak: *This study is about the idea of Earnings Management and Firm Value in accounting. It looks at how these ideas are connected and how they have changed over time. The study used a method called Systematic Literature Review, which is a way of carefully looking at lots of research papers. This study chose 10 research papers that were published between 2021 and 2026 from well-known places like Scopus, Web of Science and Emerald. The results of the study show that when companies do Earnings Management in a way that is not honest it can hurt the value of the company. This is because it makes it harder for people to know what is really going on with the company and it can also make the people in charge of the company do things that're not good for the company. If This study says that it is very important for companies to be honest about their finances and to have rules in place. Researchers should keep studying Earnings Management and look at new ways to detect it like using artificial intelligence. Earnings Management is a deal and companies need to be careful, about it. Earnings Management can hurt Firm Value so companies should try to avoid it. The study of Earnings Management and Firm Value is important. Will keep being studied in the future.*

Keywords : *Earning Management, Firm Value, Financial Transparency*

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INTRODUCTION

The issue of earnings management is a problem for academics, regulators and investors all over the world. Earnings management practices, which can be accrual-based or real let managers use their judgment when reporting finances to change the earnings figures. This can be done to meet targets, influence stock prices or fulfill agreements. For example Tulcanaza-Prieto et al (2022) found that real earnings management is bad for value in the Korean market especially when corporate governance is not effective.

The impact of earnings management on value is clear. It makes earnings quality go down which creates a problem where management and shareholders do not have the information. This can increase the risk that managers will act in their interests, undermine investor confidence and ultimately decrease firm value. Some researchers, like Boachie and Mensah (2022) have shown that earnings management hurts financial performance in sub-Saharan African countries. They also found that corporate governance quality plays a role in this. Other researchers, like Orban et al (2026) and Ambarwati et al (2025) found that based earnings management decreases firm value in industrial companies in Nigeria and Indonesia.

Earnings management is a threat to the transparency of financial reporting. We need to take action to minimize its negative impact on firm value (Bui, 2024). Companies can do this by strengthening governance, such as making sure the board is independent having an effective audit committee and having more institutional ownership. From a perspective earnings management increases the cost of equity capital because investors want a higher risk premium. From an ethical perspective this practice undermines stakeholder confidence in the integrity of financial statements (Afrizal et al., 2021).

Using stricter IFRS standards and data analytics technologies, such as intelligence to detect manipulation can reduce the scope for

earnings management (Almari et al., 2021). If companies adapt to this early they will save costs in the run and increase firm value. Earnings management issues provide information for shareholders and stakeholders. This information helps shareholders predict if a company can sustain itself in the term and if it can continue to generate high-quality earnings or if it is at risk of declining value due to manipulation practices (Intara et al., 2024).

Stakeholders can also assess the impact of earnings management on governance adaptation costs and shareholder well-being. For stakeholders the way a company manages earnings reflects its governance responsibilities. Companies need to provide information that supports the cost-benefit analysis of earnings management identifies risks and vulnerabilities and designs mitigation plans, performance metrics and benchmarks. The impact of earnings management drives the need for disclosure and reporting of earnings quality (Mlawu et al., 2025).

Several previous studies have developed frameworks to investigate how earnings management affects company performance and value. Empirical analysis shows that earnings management, opportunistic ones can reduce long-term sales increase the cost of capital and reduce the value of assets and goodwill. In years International Financial Reporting Standards have emphasized the transparency and quality of financial information. IFRS require companies to consider reporting quality issues when they have a material impact, on the statements. Therefore companies worldwide must consider, adapt to and disclose matters related to earnings management in their statements.

The effect of earnings management on statements and the risks that come with it include:

- 1) when assets, including goodwill, lose value;
- 2) when the time we think assets will be useful changes;

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- 3) when we change how we figure out the value of assets;
- 4) how it affects the way we calculate when assets lose value;
- 5) when the terms of contracts change;
- 6) when we have to pay for things that might happen;
- 7) when we think we will not get paid back for loans we made.

People have looked at earnings management in the past. They did it in different ways.. All the information we have so far is not very organized and it is hard to understand because it is from different theories and places. So we need a study that shows the kinds of earnings management and how companies are motivated to do it and how it affects the value of the company. In this study the people doing the research looked at all the articles, about earnings management and the value of companies that were published between 2021 and 2026 in databases. This study is trying to understand the ideas and history of earnings management and the value of companies, including the earnings management and how it affects the value of firms and the earnings management and firm value.

- a. Important ideas from theory (agency theory, signaling theory and so on);
- b. What motivates companies to manage earnings and how they do it;
- c. How managing earnings affects a company's worth and success;
- d. What future studies could explore

For a time accounting was mainly about financial and management accounting. It focused on recording a company's performance.. As stakeholders needed more information companies started disclosing more. This included information on earnings management. Reporting quality. These practices impact a company's performance and overall value. IFRS rules also tell companies to

think about reporting quality when making statements.

There are research opportunities in looking at items related to earnings management risks. This includes how they affect statements. For example creating an Earnings Management Disclosure Index as a framework. Also implications, like asset value, contingent liabilities and governance costs can be studied further. This is to see how earnings management practices impact a company's value.

METHOD

the Systematic Literature Review (SLR). The SLR method was selected as it is a coherent, systematic and transparent method that helps in the compilation of data in an efficient, accurate and replicable manner. Systematic Literature Review (SLR) is a systematic and transparent way of searching, evaluating and synthesising the relevant literature related to a particular research question. The purpose of an SLR is to provide a complete, unbiased synthesis of previous research findings in order to better understand the relationship between earnings management and firm value and to identify research gaps for future development.

The SLR process includes three main stages: planning, implementation and reporting (Kitchenham et al. 2007). The planning phase includes formulating the research question, deciding the review protocol and defining criteria for inclusion and exclusion. The implementation phase comprises systematic literature search in recognised databases, screening of articles by predefined criteria, quality assessment of studies and data extraction and analysis. The final stage of the SLR process is a structured, clear and transparent reporting of results.

Unlike traditional narrative literature

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reviews, SLR uses a systematic and replicable approach that minimises biases in the process of literature selection and analysis. Petticrew and Roberts (2006) state that one of the main advantages of SLR is the possibility to produce stronger evidence, as it combines in an objective way findings from different sources of research. SLR is also increasingly used in accounting, finance and management for evidence-based decision making.

The SLR in this study was conducted according to PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines to ensure transparency and quality of the review process. This method is gaining favour in contemporary academic research since it allows a review of a wide variety of literature, trends to be identified, and provides direction for future research in earnings management and firm value.

The decision of databases used for this SLR was selected from many credible sources such as Scopus, Web of Science, Emerald and Google Scholar based on the article's keywords "earnings management", "firm value", "corporate governance" and "financial reporting" for 2021 to 2026 in English. A total of 121 articles were found from the databases and 40 from the registers, totalling 161 records. However, after deduplication ($n=40$), ineligible by automation tools ($n=20$) and other reasons ($n=20$) 81 articles were left for screening. The number of articles was further reduced by screening abstracts and theoretical relevance. The search retrieved the full text of 49 reports, of which 14 were not able to be downloaded. Of 35 reports evaluated for eligibility, 25 articles were excluded due to inconsistencies in keywords ($n=12$) and inconsistencies with the needed theory ($n=13$). Thus, 10 new studies were added to this *Systematic Literature Review*

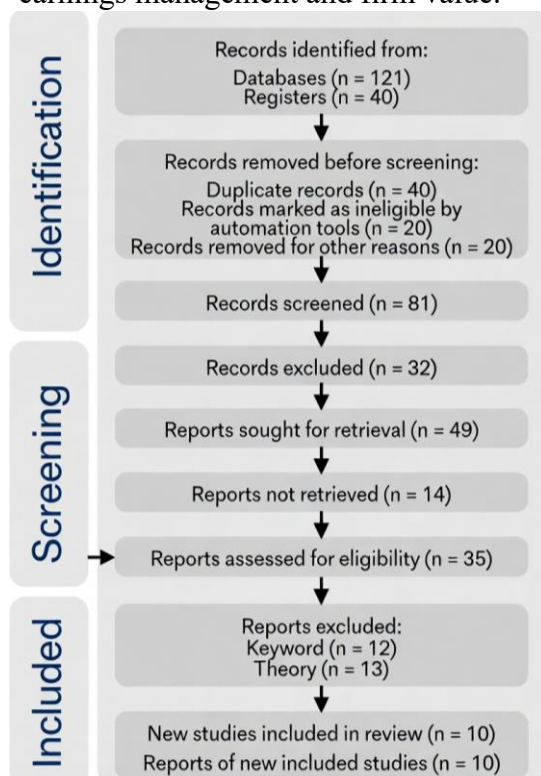


Figure 1. Prism Model Diagram

RESULTS AND DISCUSSION

Tulcanaza-Prieto et al. (2022) tested the association between real earnings management (REM), firm value, and corporate governance (CG) in the Korean market. The present study found a significant negative relationship between opportunistic REM behaviour and firm value. However, the negative relationship is not significant for a firm with strong corporate governance (board independence, high institutional ownership and an effective audit committee). Corporate governance is an effective moderator to prevent management to engage in opportunistic REM practices, and thus prevent the firm value from declining. These results are consistent with agency theory, which posits that good monitoring can align the interests of managers and shareholders.

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Intara et al. (2024) found that earnings quality has a positive and significant relationship with firm value in companies listed on the Stock Exchange of Thailand. The positive relationship between earnings quality and firm value is stronger in firms with strong corporate governance than in firms with weak governance. CG mechanisms (i.e., auditor and board independence) enhance the positive effect of earnings quality on firm value. This paper stresses that good quality financial reporting is a good signal for investors and adds to the market value of a company.

Ardiansyah et al. (2025) conducted a study on the effect of earnings management and tax planning on firm value with earnings persistence as a moderating variable in non-cyclical consumer companies in Indonesia. The results show that earnings management has a significant negative impact on firm value. Investor confidence and the quality of financial information were undermined by opportunistic earnings management practices. Tax planning also played a negative role while earnings persistence did not moderate the relationship. These findings provide support for the signalling theory that opportunistic practices damage market perceptions of a company.

Shittu et al. (2023) investigated the effect of real earnings management on the value of non-financial firms in Nigeria. The results show that abnormal discretionary expenses have a significant positive effect on firm value, while abnormal operating cash flow and abnormal production costs do not have a significant effect. Leverage and size of the firm also exerted positive effects. The study concluded that efficient use of discretionary spending can help companies to stabilise earnings and enhance the firm value.

Kholis et al. (2026) studied the mediating effect of earnings management

on the relationship between CEO power and firm value. The results show that CEO power has a negative effect on firm value but a positive effect on earnings management practices. Earnings management is a mediating variable in this relationship, which worsens the negative effect of CEO power on firm value. This finding is in line with the agency theory perspective that excess power of CEO may lead to opportunistic actions harmful to the shareholders.

Heling & Lastanti (2024) also conducted another study about earnings management in emerging markets. This study examines the impact of financial distress, earnings management and financial performance on firm value with good corporate governance as moderating on infrastructure companies in Indonesia. The results indicated no significant impact of earnings management on firm value, but profitability had a positive effect. Good corporate governance (institutional ownership) acted as a moderator and weakened the potential negative impact of earnings management.

Habib et al. (2022) reviewed the international literature on real earnings management. They found that the REM practices, in general, reduce firm value in the long run due to their inefficient resource allocation. However, this negative effect can be mitigated in firms with strong external control (high-quality auditors and strict regulation). This study underlines the role of the institutional context in the relationship between REM and firm value.

Bui et al. (2024) through a bibliometric analysis of earnings management research trends show that most empirical studies show a negative relationship between opportunistic earnings management and firm value. Recently, there are more studies that combine corporate governance, ESG disclosure and

technology (AI) as moderating variables. This study highlights the need for a holistic perspective to understand the evolution of the earnings management literature.

Nguyen and their team (2024) looked at companies in Vietnam from 2010 to 2020. They found out that good corporate governance greatly reduced earnings management. This was true for both based and real earnings management practices. Good corporate governance also helped to lessen the impact of earnings management on a company's value. The better the corporate governance the less earnings management hurt the company's value. This was especially true for companies, companies with many foreign investors and companies that were growing fast.

Liu and their team (2023) studied how real earnings management relates to ESG disclosure in Egypt. They found that companies with ESG disclosure had lower levels of real earnings management. According to social norm theory when managers own a part of the company they are more likely to follow the rules and be transparent, about sustainability. The study showed that real earnings management not directly hurts a company's value but also indirectly hurts it by making sustainability disclosure less transparent. This lack of transparency can mislead investors. Ultimately hurt the company's value.

The synthesis of the 10 studies reviewed as a whole suggests that earnings management (opportunistic in particular) tends to reduce firm value.

CONCLUSIONS

This study is about Earnings Management and Firm Value. It looks at the ideas and changes in accounting literature related to Earnings Management and Firm Value. The study includes:

- (1) ideas from theory like agency theory signaling theory and legitimacy theory
- (2) types of Earnings Management and why companies do it
- (3) how Earnings Management affects Firm Value
- (4) the role of corporate governance in all this.

The study found that Earnings Management, especially when companies try to manipulate earnings on purpose hurts Firm Value. When companies do this it can lead to people not trusting them much and it can cost them more to borrow money. If companies have good corporate governance, like independent boards and audit committees it can reduce the negative effects. Most of the time when companies share information about their earnings they only share the stuff. They do not usually talk about the risks and problems with Earnings Management.

This research says that companies do Earnings Management for external reasons. Internally they want to meet their targets like getting bonuses. Externally they feel pressure from investors and the market to have earnings. The study supports the idea that there is a conflict between what managers want and what shareholders want. It also supports the idea that when companies report their earnings honestly it sends a signal to the market.

Earnings Management is a deal. Companies need to be careful about it. This study looked at Earnings Management and Firm Value. It used a method to choose articles to study.. It only looked at articles in English between 2021 and 2026 and only in certain journals. So it did not cover everything. There are areas where future research can go. For example creating a way to disclose Earnings Management.. Looking at how new technologies can help

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detect Earnings Management. Comparing how Earnings Management works in different markets.

This study has implications. Companies should try to have corporate governance to avoid manipulating earnings. Regulators should encourage companies to be transparent about their earnings. Investors should understand how Earnings Management affects Firm Value so they can make decisions. Overall good financial reporting and corporate governance are key to creating value for companies.

The study of Earnings Management and Firm Value is important. It can help companies and investors make decisions. Earnings Management is an issue. Companies need to be careful about it. They need to have corporate governance and transparent reporting. This can help them build trust with investors and create long-term value.

Future research, on Earnings Management and Firm Value can explore areas. It can look at how new technologies can help. It can compare markets. It can examine the long-term effects of ESG disclosure. The possibilities are many. Earnings Management and Firm Value are closely related. Understanding this relationship can help companies and investors. It can help them make decisions. It can help companies create value. In the end Earnings Management is an issue. Companies need to take it. They need to have corporate governance and transparent reporting. This can help them build trust and create long-term value. The study of Earnings Management and Firm Value is ongoing. It can help companies and investors make decisions. It can help create a sustainable futur.

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