Earnings Management In Developed And Developing Countries: A Review Of Recent Literature

Author's Details:
[(1)]**Elhusin Blkasem Elhaj-**[1] Faculty of Economics and Management Sciences, Universiti Sultan Zainal Abidin, Terengganu [(2)]**Noorhayati Mansor-**[2] Faculty of Economics and Management Sciences, Universiti Sultan Zainal Abidin, Terengganu,

Abstract
Over the years, opportunistic earnings management practice generates reliable accounting earnings in a smaller amount which could not produce the fair and true firms' financial performance. Earnings management is most probably to decrease the quality in usefulness for investment decision and reported earnings, therefore, decreasing the confidence of investor on the financial reports. Though, accounting earnings have been more consistent with high quality while the manager's opportunistic behavior is changed by applying monitoring system. Therefore, regulatory bodies of the stock market and other agencies are more concerned with the earnings management, particularly, after collapsing of current numerous firms to which were reported increasing the independence of external auditors and corporate governance. Its main objective is not only to directly expand corporate performance but also to resolve agency problems by making parallel management and shareholders' interests. Earnings management, as for as the literature concerned is very rich and resolve the problems of earnings management such as type of earnings management, corporate governance practices and also numerous elements disturbing earning management. Past studies have also been recognized the constraints on earnings management and the impact of incentives which could be divided into two groups. The first group examines corporate governance, ownership structure and audit quality as constraints while the second group studies leverage and free cash flow as incentives. This study discusses the literature of earnings management and also discusses the suitable gap from the literature of earnings management in both developed and developing countries. The contribution of this study is to highlight the complication in issues of earnings management in reporting of financial corporate and gives a way for further study on decreasing earnings management practices.
Keywords: *Earnings management, Corporat Governance, Incentives and Constraints, Agency theory.*

1.0 Introduction

The end of the 20th century era has been observed continuous scandal of corporate accounting across the USA, For example, Stated Healthsouth, Worldcom, Parmalat, Tyco, Xerox and Enron;on the bases of these issues was normally earnings management phenomenon (Goncharov, 2005) . Earnings management is a consistent and wide range of concerning among regulators and practitioners and has established substantial consideration the literature of accounting. It has been argued earnings management covers the position of businesses and fair financial results and also argued the facts which stakeholders must come to know (Loomis, 1999).

Earning management is a difficult task to need a long time to investigate and disclose. Thus, understanding how institutions can provide the incidence of frauds and assist the company resources and increase stakeholders trust. Hence, manipulations and frauds financial, accounting are not a new practice in the firms. Which resulted, many companies have emerged to employ hire professional forensic accountants for decreasing frauds and manipulations earning (Abdullahi & Mansor, 2015).

Managers' interference in accounting information was assumed numerous name as well as "cosmetic accounting" and "accounting manipulation". Schipper, (1989) The most often applied term in the experimental literature is "earnings management". Earnings management as a manager's interference in reporting of external financial procedure to suitable individual gain. Further, this definition proposes that the phenomenon of earnings management can be the outcomes of opportunistic manager's behavior.

Earnings management, in fact, a managerial practice which is an outcome of numerous research in agency theory and positive accounting theory and also has developed information about irregularity between business partners and managers. Then, earnings management could be observed on the bases of efficient market theory. In this viewpoint, managers have been motivated to operate earnings to issue more informative disclosure (Watts & Zimmerman, 1986).

The literature review discuses that the definition of earnings management about opportunistic perspective regarded as opportunistic tool using by managers to evade certain circumstances that can influence the firm negatively, deceptive investors regarding the real circumstance of the firm. By increasing or decreasing profits, managers communicate to investors to meet results were being achieved and these results will be compensated in accordance with taking full advantages the personal gain of managers. The opportunistic perspective of earnings management supports the positive accounting theory.

Many theories review the constraints and incentives about earnings management. The most covered in the literature review in the stakeholder's theory, positive accounting theory and agency theory . These theories present a vision of the role of management in meeting the aspirations and needs of stakeholders in several areas including disclosure, which is one of the most important demands of the stakeholders. It also discusses the role and impact of stakeholders on companies to meet their different needs.

The main objectives of this article is to review recent literature on earnings management in order to determine factors which influence earning management in many countries. The study then proposes a recommendation for next studies in earnings management.

2.0 Literature Review

Financial manipulations and reporting quality continue to be importance topic in accounting issues. It is including both Accrual and Real Earnings Management are paid more attention by investors, analysts , accountants and other users due to the continuing complexity of business structures and arrangements (Abdul Rahman & Mansor, 2018).

"Net income" or earning is the only significant element in financial statement and in many cases establishes the major deciding elements for investors. Most of the times firms inclined to obtain weighed down by the expectation of the market firm's earnings. Any important withdrawal of earnings from the estimation of market may outcome in contrary results for the firm's stock price and harms its efforts for future fund raising. Exerting the consideration on earnings, firm's managers have always been involved in its reporting of earnings. So, earnings management produced through mangers' intervention in the process of financial reporting (Greco, 2012).

Thiruvadi & Huang, (2011) The objectives for organizing earnings with the agency theory" explained Conflict between agents and shareholders with the mangers happens because of changes goals. For decreasing this conflict, shareholders can give incentive to managers by connecting their compensation along with accounting earnings reporting. This connection of compensation for earnings has been showed to become the motivator for managers to operate the earnings by means of numerous methods of original accounting.

Now recently, the main focus on earnings management has enlarged as obvious from the present study in this field. Previous studies on earnings management confirm its widespread existence. However, much of the existing research on earnings management have focused on the reporting practices in extensively done companies in advanced countries, mainly the USA. Bhattacharya, Daouk, & Welker, (2003); Sarkar, Sarkar, & Sen, (2008) stated that in developing economies, the obtainable literature is fairly incomplete, however cross-country indication points to higher degree of earnings interference in under developed countries as comparing to their developed countries. In emerging economy, practice of opaque reporting along with poor quality earnings may unfavorably affect equity markets at that time when increasing worldwide incorporation of financial markets. Sarkar et al., (2008) suggested that example of The East Asian crisis in

1997, how poor administration evaluates, and quality of low accounting disclosure worsened the stock market's collapse.

However, in developed countries, the study on earnings management has been very extensive and discusses on a large scale about earnings management problems for example, constraints in earnings management and incentives as well as factors affecting earnings management. Numerous researches have been emphasized on defining which factors pay influence on earnings management and they can be organized into two groups. The first group examines corporate governance, ownership structure and audit quality as constraints. On the other hand, the second group studies leverage and free cash flow as incentives in earning management.

2.1 Theoretical approaches of earnings management

Managers used earnings management is progressively in their firms, influencing both the other market participants and executives (Sellami & Adjaoud, 2010). Earnings management is not regarded a simple device, but it is taken as a strategic element that affects the resource allocation and investing decision of many stakeholders. As a strategic device, numerous studies have been tried to elaborate the usage of earnings management. Infect, three major theories are recognized in the studies in elaborating motivation about the earnings management: the stakeholder theory. agency theory, the positive accounting theory.

2.1.1 The agency theory

Ross (1973) started this theory and it is made by Jensen & Meckling, (1976) . This theory focuses on the association between a principal and agent. Agency theory has been founded on the deviation of taking interests and irregularity information between these two agent and principal. Jensen & Meckling, (1976) argued that the manger, infect, is expected to work in egocentric way to make the most of his personal means to the disadvantage of the shareholder, consequently, in a transition of wealth from the firm to the manager. For changing this attitude and motivate them to further alignment with their interests for the firms, manger's incentives have been made to align the required performance or results. From this behavior and action, produced incentives for mangers to organize earnings to achieve the required result and enhance their personal property.

Habbash (2010) practice of earnings management could be a gauge of the agency issues. Management and ownership have usually been detached in modern companies as shareholders are not always engaged in the administration of their companies and this builds the foundations for the agency problem.

2.1.2 The stakeholder theory

This theory is an extension of agency theory from expecting board of directors to take care the shareholders' interests. Freeman, Wicks, & Parmar, (2004) discussed deeply by emphasizing on shareholders are extended considered the interest of numerous groups of stockholders, including ethical considerations environmental consideration and socially interest groups.

Though the stakeholder theory has more considerable practical applications, historical roots, and intellectual appeal comparing to the agency theory (Pate et al., 1995) it has much less influence on policy-making and thinking about corporate governance. According to Hoque, (2006) the mutual criticisms for the stakeholder theory is how to bring into line the conflicting interests of the stakeholders since the complications outcomes from how to manage dissimilar stakeholders with numerous demands and if it happens, can it treat equally all stakeholders? Furthermore, it is not applied for all stakeholders to become efficiently embodied in corporate governance endorsements as this can weaken the company welfare (Zamir & Etzioni, 1998). In contrast, the connection between the earnings management and stakeholder theory is clarified by Prior et al, (2008) they argued that administration may operate earnings to recover their private interests through expenditure of shareholders and moreover remaining stakeholders.

2.1.3 The positive accounting theory

This theory is the most important theory in the accounting literature. Started by Watts & Zimmerman (1978 and 1986), this theory has diverse accounting practices applied to affecting the outcomes of firms where managers may assume two sorts of behavior: opportunistic behavior preferring their interest at the rate of other stakeholders, and second type is intended behavior to use accounting values professionally to make the most of the company's worth. Three elements that may clarify the usage of earnings management: compensation, company size and debt (Watts & Zimmerman, 1986) According to the critics of compensation, top management select to hasten and intensification earnings to make best use of their wealth particularly if the exact association is found between the outcomes achieved and the ratio of compensation. Such measurements have been predictable to recover the managers' welfare even though the other stakeholders' interest can be affected (Jeanjean & Tanaka, 2002) According to Jeanjean (1999) incentive agreements are usually applied in the United States not in Europe.

2.2 Constraints on Earnings Management

The way of internal control can reduce earnings management and the study discuses on the association between earnings management and some control mechanisms especially corporate governance, board of director's characteristics, ownership structure and audit quality.

2.2.1 Corporate governance

Previous researches have mainly focused on the possessions of numerous corporate governance tools for earnings management. There are many recent studies on earnings management and corporate governance in developed and developing countries including. Abdullah et al (2018) ; Ilyas et al (2018) ; Alareeni (2018) ; Obigbemi et al (2016) ; Singh et al (2017) ; Zhang et al (2012) ; Iraya et al (2015) ; Idris et al (2018) ; Charfeddine et al (2013) ; Nugroho and Eko (2012) ; Elghuweel (2017) ; Bajra & Cadez (2018) ; Daghsni et al (2016) ; Dimitropoulos (2011) ; Alves (2014) ; Alves (2011).

In developing countries, Malaysia, the effects of IFRS implementation and practices of corporate governance on the financial reporting qualities. Abdullah et al, (2018) The sample size of this study contains a balanced panel of 360 companies-yearly observations of construction companies governing the upper managing board of Bursa Malaysia from 2013 up to 2016. Measuring the relationship in this study between the degree of earnings management and board of directors. The findings show the significant association between the features of board of directors with the degree of earnings management throughout the years in Malaysia after the implementation of IFRS. Also, Ilyas et al, (2018) examines, in Pakistan, the possessions of corporate governance on earning management by applying a sample size of 144 companies listed in Pakistan Stock Exchange from 2007 to 2016. The findings disclose a negative connotation between corporate governance and earnings management and henceforth, propose that corporate governance recovers accounting quality by dropping practices of earnings management. This research delivers provision for an earlier research by Alareeni (2018) where earnings management has been discussed to be negatively connected with the size of the board, authorizing that a bigger board is connected with a lower degree of practices of earnings management. Similarly, Obigbemi et al, (2016) providing evidence that a negative association between gender for board size, and board arrangement with earnings management.

In India, Singh et al, (2017) studied a sample of 36 companies listed on Bombay Stock Exchange (BSE) for the period 2005-06 to 2014-15. Findings of this study propose that earnings management and board independence have negatively correlation. Likewise, audit committee independence and board size have positively association with earnings management. However, three variables of corporate governance (committee meeting, frequency of board meeting and role of duality) are not meaningfully associated to earnings management. Zhang (2016) Members of governance features and practices of earnings management about not listing directives in China and create that not listed firms kept bigger agency issues a very low degree of independenc . Further, Iraya et al, (2015) showed that companies with independent members are less likely to be involved in earnings management.

In the study of Jorden, "the investigating the moderating effect of family ownership over the relationship between board independence and earnings management has been conducted (Idris et al, 2018). By applying information of industrial firms indexed from Amman Stock Exchange, this study shows the effect of negative association between earnings management and board independence, suggesting that high level of board independence percentage is associated with more actual monitoring to decrease earnings management.

Several studies discuss a positive influence of board size on earnings management among listed firms. For example, Charfeddine et al, (2013) board has positive correlation with earnings management and other researches Man & Wong, (2013); González & García-Meca, (2014) also propose that a big board of members produce co-operation issues that decrease misunderstandings of management, therefore growing earnings management behavior. These results assist the statements that board size has positive correlation with earnings management.

In contrast, Nugroho & Eko, (2012) board features for example dual leadership, board size, board multiple directorships, board tenure, independent board of director and managerial ownership does not influence on earning management on the bases of listed firms in the Indonesian Stock Exchange from 2004 to 2008. Introducing new construct on Islamic governance for research and this construct effects on behavior of earning management. His findings demonstration that companies that have made IG committees less involve in earning management (Elghuweel et al, 2017).

In the context of developed countries, the effect of two main corporate governance devices (quality of board of directors and quality of internal audit) in United States on earnings management (Bajra & Cadez, 2018). Findings of this study suggested that both methods negatively effects on earnings management. Similarly, the effect of size of board on earnings management in France has been examined by Daghsnii et al, (2016) . The sample size of this study was of 70 listed firms of France from 2008 to 2012. The results of this study were a negative association between the constructs. In contrast, analyzing the effect of quality of corporate governance (board independence, board size, institutional ownership, CEO duality and managerial ownership) on the earning management foot club of European Unions from 2006 to 2009. The results of this study were that quality of corporate governance diminishes the earning management (Dimitropoulos, 2011).

The study of Portugal, according to Alves (2014) the influence of board independence on quality earnings has been examined. The findings of this study are independent board members advance quality earnings by decreasing earning management. Also in Portugal, Alves (2011) extends the research studying the effects of board structure. The results support the predicted non-linear relationship between board size and earnings management. It is reported that discretionary accruals are negatively related to board composition. However, no evidence was found on the effect of audit committee on earnings management.

2.2.2 Ownership Structure

Separating of control gives and ownership make risen in incentives of manager to choose and use accounting estimate and methods that may give rise to their own profits according to agency theory. This problem significant now since many companies have been listed in stock exchanges as public companies. In this study that makes better for managerial understanding for the earnings management by emphasizing agency theory. The purpose of this part discussing research from across the world by examining the association between earnings management and ownership structure. Different studies on this issue focusing on the association between the ownership structure and earning management including Lassoued et al (2017); Ogbonnaya& Omolehinwa (2016) ; Aygun et al (2014) ; Parveen et al (2016) ; Imoleayo et al (2017) ; Lakhal (2017) ; Grimaldi & Muserra (2017) ; Greco (2012).

Obigbemi et al.,(2016) investigate the effect of cooperate governance and ownership structure on earnings management of Brewery industries. 2004to 2013 was the period used for this study .Regression technique, was used to analyses the data, the result shows that CEO and Managerial ownership have positive significant effect on Earning management. Also, another study of using a sample size of 134 banks from 12 North African countries and Middle Eastern has been examined (Lassoued et al, 2017). This study utilized a panel data and the results of this study stated that more concentrating ownership banks applies loss discretionary loan to assist in managing their earnings. The results also stated that firm's owners inspire earnings management on the other hand family owners do not follow this practice.

Another study held in Turkey, "the impact of corporate ownership structure and board size on earnings management" (Aygun et al , 2014). The sample size was of Turkish companies listed in Istanbul Stock Exchange (ISE) from 2009 to 2012. The results of this study stated that firm s' ownership and size of board have negative effect on earnings management on the other hand managerial ownership have positive effects on earnings management.

Another study has been found "the impact of ownership structure on firms' earning management in Pakistan banking industry" (Parveen et al, 2016). Ownership structure is separated in two groups: ownership mix and ownership concentration. The sample size was of 20 banks from 2000 to 2012. The findings exhibit that main shareholders e.g government, financial institutions and directors have negative impact on earnings management. In contrast, local ownership, associated organizations' ownership and foreign investors have positive effect on earnings management.

"The effects of ownership "management, family and block ownership on earning management" this study was conducted in Nigeria (Obigbemi & Omolehinwa, 2016). Sample size of this study was of 137 listed firms. The findings of this study are having a positive association between family ownership and management ownership on earnings management. Further, negative association between practice of earnings management and block ownership.

In contrast, Lakhal (2017) the study of "the effect of corporate governance devices on earnings management for French-listed firms. Mostly, the association among ownership structure features, earnings management and corporate disclosure practices were examined. The sample size of this study was of 170 companies in 2008. Data about disclosure quality and ownership structure assembled from annual reports were available in the relevant web sites. The results of this study stated that institutional investors, families and numerous shareholders have negative impact on earnings management.

Similarly, the research of "The relationships between earnings management and three different ownership concentration characteristics (ownership concentration, 1st and 2nd largest shareholders)" was studied (Grimaldi & Muserra, 2017). Sample was taken from the listed firms of Italian the period of 2011 to 2013. The findings of this study were discretionary accruals, substitution for earnings management has negative relation with ownership concentration. Further findings shown that ownership concentration has positive effect on annual earnings by decreasing the degree of earnings management.

Another study was examined by Greco (2012) on "the impact of corporate governance and ownership structure variables on earnings management in the European oil industry". The findings of this study showed that non-linear relations among earnings management, governmental ownership and investor's ownership. The finding is reliable for the incentives to oil firms to evade nearer political examination on the reported outcomes.

2.2.3 Audit quality

Among recent studies focusing on the association between earning management and audit quality has been examined including. Alzoubi (2016) ; Olabisi et al (2017); Khanh & Khuong (2018) ; ching et al (2015) ; Yasser & Soliman (2018) ; Jouini & Saied (2018) ; Lopes (2018) ; Rusmin (2010) ; Tsipouridou & Spathis (2012) ; Alhadab & Clacher (2018) ; Rajpal & Jain (2018).

The study of "The effect of audit quality and earnings management" was examined by Alzoubi (2016). The sample size was of 86 firms listed in Amman Stock Exchange the period of 2007 to 2010. In this study, cross sectional modified Jones model was used to evaluate discretionary accruals, substitutes the earnings management. The findings shown that a negative relation between earnings management and audit quality, further, concluding that by using the services of independent auditor's services earnings management would be lower among firms. Furthermore, the results of the study exhibited that the degree of earnings management is low among firms by hiring a Big4 audit company, as comparing to these companies not using the Big4 audit company services.

Measuring the association between quality audit and earnings management in the listed companies of Nigeria banks (Jayeola, Agbatogun, 2017). This study has a longitudinal research design by using secondary data from 2005 to 2014. The findings of this study showed positively association between earnings management and joint audit. In contrast, negatively association between earnings management and audit specialization. Further findings suggest audit tenure did not meaningfully effect on earnings management.

In Vietnam, Khanh, & Khuong,(2018) examine the effect of audit quality and firm characteristics on real earnings management. The sample size of this study was of 1687 companies listed in Vietnam Stock Exchange. The findings of this study revealed that there is no change in the result of the audit by big4 and non-big4 in dropping earnings management. In contrast, the study examined in Malaysia, quality audit will not restrain practices of earnings management (Ching et al, 2015). The sample size of this study was taken from 100 companies were randomly chosen from the Industrial and Consumer Products industry from 2008 to 2013. The alteration in findings can be attribute to alterations in the audit atmosphere among countries.

The new study conducted by Yasser & Soliman, (2018) to examine "the effect of audit quality on earnings management" data was taken from the listed companies of Egypt. The also examine the association among quality audit substitutes for example, auditor industry specialization, earnings management and audit firm size, from 2012 to 2016. The findings of this study shown that auditor industry specialization and audit firm size having no association with earnings management.

Conversely, numerous researches have been held in advanced countries for example, "the effect of the interaction between audit quality variables and the ownership structure on earnings management" was examined (Jouini & Saied, 2018) . The sample of this study was 86 firms listed in France stock exchange from 2010 to 2013. The results of this study showed that relation between the concentration of capital and auditor reputation have the negative impact on earnings management. In contrast, the association between the size of float and auditor reputation negatively impact on earnings management. Further, the association between the percentage of the voting rights from public and auditor seniority have negative effect on earnings management.

Another study was conducted in Portugal, Lopes (2018) "the relationship between audit quality and earnings manipulation. The sample size of this study was of 4723 during 2013 to 2015. The findings of this study stated that the degree of earnings management is meaningfully lower among firms associating a Big 4 audit company by comparing with those firms not applying Big 4 audit Company. Further study conducted in Singapore "negative association between auditor quality and the earnings management indicator" (Rusmin, 2010). The findings of this study shown that the level of earnings management between company involving the services of a specialist has been meaningfully less rather than company procuring audit services taken from a non-specialist auditor. Further findings shown that the level of earnings management is meaningfully less between firms involving a Big 4 audit specialist comparing to such firms not applying Big 4.

However, the audit firms' size cannot impact on the magnitude of opportunistic behavior of earnings management and the information from audit opinion would not be a problem for opportunistic behavior of earnings management (Tsipouridou & Spathis, 2012). The sample of this study was of 978 listed companies in Athens Stock Exchange. Data is taken of five years, the clarification of the outcomes, though, is provisional on the Greek background. Further, another study was conducted in UK by Alhadab & Clacher, (2018). The study was "the relation between audit quality and the earnings management activities of IPO firms". The findings of this study were that the best auditor is not adequate to restraints whole types of earnings management.

According to auditor's charges, the study of found "a negative relationship between fees for non-audit services and earnings management" (Rajpal & Jain, 2018). Sample size was of 1600 companies. Also they did not show any significant relationship between earnings management and industry specialization of the auditors, and size of the auditors. The results are consistent under various robustness checks.

3.0 Incentives to Earnings Management

Prior studies have examined the effect of leverage and free cash flow in developed and developing countries as potential factors in motivating the earnings management practice.

3.1 Leverage

The study focusing on the effect of financial leverage on earning management has been conducted by Hrp et al , (2017) . The study examined "the relationship between leverage and financial distress on earnings Management". Moderating variable was good corporate governance used in this study. The method used in this study was of descriptive explanatory, data was taken from documentary study. The sample size was of 42 banking firms listed in Indonesia Stock Exchange. In 30 firms, leverage and financial distress collectively and positively effect on profit management. Likewise in Egypt by Bassiouny et al, (2016) find a positive relationship between accruals-based earnings management and financial leverage. This association was also aligned with the study of Charfeddine et al, (2013) and Abbadi et al, (2016) on the bases of Jordanian companies and Tunisian companies respectively.

Though, not whole experimental evidence shows a different positively association between earnings management and leverage. For instance, a study the association between earnings management and corporative leverage (Shirzad, 2015). The sample size was 313 from listed companies in stock exchange Tehran. The results of this study shown that negatively association between earnings management and financial leverage. Similar, study was conducted in Malaysia, Zamri et al, (2013). Sample size of this study was of 3,745 listed companies during 2006 to 2011. The findings shown that negatively relation between earnings management and leverage. However, substantial evidence assists the positively association between earnings management and leverage, there is no important association based on two analyses of discretionary accruals among Brazilian companies (Ardison et al, 2012).

In the context of developed countries, the study was conducted by Lazzem & Jilani, (2018) "the impact of leverage increases on accrual-based earnings management". The sample was taken from the listed firms of French; the period was of 2006 to 2012. The findings of this study, leverage companies positively impact on earnings management. Inddation, the study was conducted in the United Kingdom, Anagnostopoulou & Tsekrekos, (2017) the effect of financial leverage on real and accrual-based earnings management". The findings of this study, earnings management enhance positive way with leverage and same outcomes was found Lemma et al , (2013) who examine 44 countries. They discussed that this study has positive association among leverage and accruals-based and activities-based earnings management. Further, they suggest that leverage companies involve in earnings management to evade liability agreement violations.

According to Chen & Lee, (2015) Company having high leverage is related with high risk of default. Therefore, CEOs of these companies obtains activities of earnings management to show their performance. Their research in United States exhibits positively association between real earnings management and leverage. However, in Italy, applying inclination scores coordinated with sample of private firms audited by non-Big4 Company, the duration of 2010 to 2014. The selection of European audit company has been negatively related with the earnings management and debt cost (Azzali & Mazza, 2018).

3.2 Free cash flow

Several researches have studied in developed and under developed countries the impact of free cash flow on earnings management. For instance ,Nouri & Gilaninia, (2017) the study conducted on 102 company's duration of 2010 to 2014. The findings of this study showd that free cash flow has positive effect on earnings management. Similarly, a study conducted in China about manipulation in cash flow and earnings management (Zhang, 2016). The sample size was of 15 listed firms. The findings of this study were earnings management and cash flow has positive correlation. Similar, outcomes were drawn by Bostan & Mohammadipour, (2016). They examined that the impact of surplus cash flow on earnings management. The data was taken from 147 listed firms in Tehran Stock Exchange over the period, during 2008 to 2014.

Cash flow has positive effect on earnings management was also studied by Zakaria, et al , (2014). The sample of this study was of 273 listed companies of Malaysia during 2010 to 2012. The findings of this study, the association among discretionary accruals, free cash flow, dividend ratio and leverage by governing the industry type, for example, consumer product, industrial product, trading & services industries and construction. Another similar study conducted in France by Nekhili et al, (2016). The study was between earnings management and free cash flow. Specially, they examined that earning can manage upwardly or downwardly with the free cash flow. The sample size of this study was 85 listed French firms the period of 2001 to 2010. The findings shown that the firms having high free cash flow have been more tending towards mange upwardly their earnings.

However, in the study of Susanto et al, (2017) The results of the research shown that the effect of board of commissioner, board independence and audit quality on relationship between free cash flow and earnings management is negative and significant. The sample of this study was of 290 manufacturing listed firms of Indonesia Stock Exchange. The sampling technique of this study was purposive sampling and duration 2012 to 2014.

4.0 Conclusion, Recommendations and Future Research

The literature on earnings management is very rich and addresses an extensive variety of earnings management related issues. Past studies have recognized the effect of incentives and constraints on earnings management which can be assembled into two categories, specifically constraints and incentives. This paper provides a review of both the constraints and incentives to earning management as well applicable theories to explain earnings management. The review shows that many most studies separate the two issues in examining the determinants of earning management. The survey demonstrates that numerous most studies separate the two issues in looking at the determinants of earning management for example . Bassiouny et al, (2016) ; Nouri & Gilaninia, (2017) ; Singh et al (2017) ; Abdullah et al, (2018) ; Lassoued et al, (2017); Aygun et al, (2014). For instance, in Singh et al (2017) and Abdullah et al, (2018) just factors related with corporate governance are examined while Lassoued et al,(2017) and Aygun et al,(2014) only assess ownership structure.

There were also variations in results obtained regarding the effects of the factors examined on earning management .The outcomes demonstrate that there is a critical connection between the attributes of a governing body with the level of earnings management amid the years after the reception of IFRS in Malaysia, Abdullah et al, (2018). However, in India Singh et al, (2017) three of the corporate governance variables (i.e., board meeting frequency, audit committee meeting frequency, and duality role) are not significantly related to earnings management. While , Lassoued et al, (2017) they found that state and institutional owners encourage earnings management, where as family owners reduce this practice. In contrast, Another study by Aygun et al (2014) Their findings suggest that institutional ownership and board size negatively affect earnings management while managerial ownership positively affects earnings management.

On the other hand, Bassiouny et al, (2016) and Nouri & Gilaninia (2017) just study the elements related to incentives to earnings management. To date, not many studies have evaluated the combined effects of incentives and constraints on earning management in a single study. From the learning viewpoint, this study wants to contribute to the increasing academics knowledge by giving extra proof on corporate governance quality. Fundamentally, top managerial staff expects that the fruitful executive in overseeing organizations may increase the value of the organizations and ensure that the organizations are great in business. The consequences of this study will hope to add to the writing by giving the relationship among incentives and constraints earning management. All the more particularly, commitments of this study are recorded down for better comprehension for reducing opportunistic earnings management practice.

5.0 Recommendations

This study recommends the need to improve the effectiveness of corporate governance hones particularly in developing countries through further research this area. For example, Vives (2006) the information asymmetry issue in developing markets is accounted for to be more awful than in developed countries. Then again, wasteful corporate governance and feeble lawful frameworks raise the dangers identified with developing markets speculations (Klapper, 2002). In view of numerous studies, for example, Ching et al , (2015) ; Rajpa & Jain, (2018) ; Yasser & Soliman, (2018) ; Elghuweel, (2017) corporate governance and audit quality does not truly constrain the earnings management practices. Thus, firms should support enhancing corporate governance that most probably will lead to better financial results.

As broadly known, one of the goals of corporate governance is to is to ensure the quality of financial reporting . The corporate controls are the main line of guard against misquotes in the money related articulations. Accordingly, as a major aspect of corporate governance, the review councils and outside review are required to give viable checking of earnings management. The superb review is seen to be a checking framework to adjust the enthusiasm of administrators and investors and decrease the potential for crafty supervisors' conduct. Henceforth, studies concentrated on the agency theory to clarify the thought processes behind the earning management practice to comprehend the preconditions for accomplishing powerful corporate governance courses of action.

The survey of studies in developing countries gives proof that various corporate governance instruments ascribe are essentially identified with earnings management. In any case, there are a few areas that are not yet covered by past studies but rather that could be important to corporate governance and the event of earnings management.. Hence, one possible avenue for future research is testing additional corporate governance attributes that may influence earning management. Examples for such additional attributes are disclosure policy, independence and experience of auditors, size of remuneration and nomination committees, and the number of meetings, whether the CEOs sit on these committees, and attendance rates at meetings of the board and its sub-committees in constraining earnings management practice. Only a few studies have examined the role of incentive factors in influencing the practice earning management such a financial distress, performance and tax planning. Thus, future studies are recommended to examine both constraints and incentives to earnings management simultaneously to expand the scope and knowledge in this area.

References

i. *Abdullah, W. R. W., Maruhun, E. N. S., Tarmizi, M. A., & Rahman, L. A. (2018). Mitigating Earnings Management: Adoption of IFRS and Corporate Governance Practices in Malaysia. International Journal of Academic Research in Business and Social Sciences, 8(2), 760–772.*

ii. *Abdullahi, R., & Mansor, N. (2015). Fraud Triangle Theory and Fraud Diamond Theory . Understanding the Convergent and Divergent For Future Research, European Journal of Business and Management. 5(4), 38–45.*

iii. *Abdul Rahman, W. N. W., & Mansor, N. (2018). Real Earnings Management In Family Group Affiliation : A Research Proposal. International Journal of Accounting, Finance and Business. (IJAFB), 3(11), 82 - 96.*

iv. *Alareeni, B. A. (2018). Does corporate governance influence earnings management in listed companies in Bahrain Bourse? Journal of Asia Business Studies.*

v. *Alhadab, M., & Clacher, I. (2018). The impact of audit quality on real and accrual earnings management around IPOs. The British Accounting Review, 50(4), 442–461.*

vi. *Alves, S. (2014). The effect of board independence on the earnings quality: evidence from portuguese listed companies. Australasian Accounting, Business and Finance Journal, 8(3), 23–44.*

vii. *Anagnostopoulou, T. (2017). The effect of financial leverage on real and accrual-based earnings management. Accounting and Business Research.vol:47 Issues:2,191-236.*

viii. *Ardison, K. M. M., Martinez, A. L., & Galdi, F. C. (2012). The effect of leverage on earnings management in Brazil. Advances in Scientific and Applied Accounting, 5(3), 305–324.*

ix. *Aygun, M., Ic, S., & Sayim, M. (2014). The Effects of corporate ownership structure and board size on earnings management: Evidence from Turkey. International Journal of Business and Management, 9(12), 123.*

x. *Azzali, S., & Mazza, T. (2018). Effect of European audit firms on cost of debt and earnings management in private clients ' audit market segment, 12(11), 294–315. https://doi.org/10.5897/AJBM2018.8507*

xi. Bajra, U., & Cadez, S. (2018). The Impact of Corporate Governance Quality on Earnings Management: Evidence from European Companies Cross-listed in the US. Australian Accounting Review, 28(2), 152–166.

xii. Bassiouny, S. W. (2016). The impact of firm characteristics on earnings management : an empirical study on the listed firms in Egypt, 7(2), 91–101.

xiii. Bhattacharya, U., Daouk, H., & Welker, M. (2003). The world price of earnings opacity. The Accounting Review, 78(3), 641–678.

xiv. Bostan, A., & Mohammadipour, R. (2016). Investigating the Effects of Surplus Free Cash Flow on Earnings Management in Corporations of Accepted in Tehran Stock Exchange Introduction :, 3(6), 9–20.

xv. Charfeddine, L., Riahi, R., & Omri, A. (2013). The determinants of earnings management in developing countries: A study in the Tunisian context. The IUP Journal of Corporate Governance, 12(1), 35–49.

xvi. Chen, Y., & Lee, C. (2015). Stock-Based Compensation and Earnings Management Behaviors, 18(2). https://doi.org/10.1142/S0219091515500083

xvii. Ching. (2015). IJEM The Relationship among Audit Quality , Earnings Management , and Financial Performance of, 9(1), 211–229.

xviii. Daghsnii, O., Zouhayer, M., & Mbarek, K. B. (2016). Earnings Management and Board Characteristics: Evidence from French Listed Firms. Account and Financial Management Journal, 1(2), 92–110.

xix. Dimitropoulos, P. (2011). Corporate governance and earnings management in the European football industry. European Sport Management Quarterly, 11(5), 495–523.

xx. Elghuweel, M. I., Ntim, C. G., Opong, K. K., & Avison, L. (2017). Corporate governance, Islamic governance and earnings management in Oman: A new empirical insights from a behavioural theoretical framework. Journal of Accounting in Emerging Economies, 7(2), 190–224.

xxi. Freeman, R. E., Wicks, A. C., & Parmar, B. (2004). Stakeholder theory and "the corporate objective revisited." Organization Science, 15(3), 364–369.

xxii. Geraldes Alves, S. M. (2011). The effect of the board structure on earnings management: evidence from Portugal. Journal of Financial Reporting and Accounting, 9(2), 141–160.

xxiii. Goncharov, 2005Yu P. (2005). Structure of the confining solutions for SU (3)-Yang–Mills equations and confinement mechanism. Physics Letters B, 617(1–2), 67–77.

xxiv. González, J. S., & García-Meca, E. (2014). Does corporate governance influence earnings management in Latin American markets? Journal of Business Ethics, 121(3), 419–440.

xxv. Greco, G. (2012). Ownership structures, corporate governance and earnings management in the European Oil Industry.

xxvi. Grimaldi, F., & Muserra, A. L. (2017). The Effect Of The Ownership Concentration On Earnings Management . Empirical Evidence From The Italian Context, 14(3), 236–248. Https://Doi.Org/10.22495/Cocv14i3c1art9

xxvii. Habbash, M. (2010). The Effectiveness Of Corporate Governance And External Audit On Constraining Earnings Management Practice In The UK. Durham University.

xxviii. Hrp, A. I., Sadalia, I., & Fachrudin, K. A. (2017). The Effect Of Leverage And Financial Distress On Earnings Management With Good Corporate Governance As The Moderating Variable, 3(4), 86–95.

xxix. Idris, M., Siam, Y. A., & Nassar, M. (2018). Board Independence, Earnings Management And The Moderating Effect Of Family Ownership In Jordan. Management & Marketing, 13(2), 985–994.

xxx. Ilyas, M., Ahmad, A., Khan, M. T., & Khan, I. (N.D.). The Impact Of Corporate Governance On Earnings Management: Empirical Evidence From Pakistan. Journal Of Research In Social Sciences (JRSS), 256.

xxxi. Iraya, C., Mwangi, M., & Muchoki, G. W. (2015). The Effect Of Corporate Governance Practices On Earnings Management Of Companies Listed At The Nairobi Securities Exchange. European Scientific Journal, ESJ, 11(1).

xxxii. Jayeola, Agbatogun, T. (2017). Audit Quality And Earnings Management Among Nigerian Listed Deposit Money Banks Olabisi. International Journal Of Accounting Research, 5(2). Https://Doi.Org/10.4172/2472-114X.1000159 xxxiii. *Jeanjean, L. (1999). On The Existence Of Bounded Palais–Smale Sequences And Application To A Landesman–Lazer-Type Problem Set On ℝ N. Proceedings Of The Royal Society Of Edinburgh Section A: Mathematics, 129(4), 787–809.*

xxxiv. *Jeanjean, L., & Tanaka, K. (2002). A Positive Solution For An Asymptotically Linear Elliptic Problem On $\Mathbb N Autonomous At Infinity. ESAIM: Control, Optimisation And Calculus Of Variations, 7, 597–614.*

xxxv. *Jensen, M. C., & Meckling, W. H. (1976). Theory Of The Firm: Managerial Behavior, Agency Costs And Ownership Structure. Journal Of Financial Economics, 3(4), 305–360.*

xxxvi. *Jouini, F., & Saied, M. (2018). Effect And Interaction Between External Audit Quality And Ownership Structure On Earnings Management For Listed French Companies. International Journal Of Critical Accounting, 10(2), 130–151.*

xxxvii. *Klapper, L. F. (2002). Corporate Governance , Investor Protection , And Performance In Emerging Markets,. Policy Research Working Paper.*

xxxviii. *Lakhal, N. (2015). Corporate disclosure, ownership structure and earnings management management: The case of French-listed firms. Journal of Applied Business Research, 31(4), 1493.*

xxxix. *Lassoued, N., Ben Rejeb Attia, M., & Sassi, H. (2017). Earnings Management And Ownership Structure In Emerging Market: Evidence From Banking Industry. Managerial Finance, 43(10), 1117–1136.*

xl. *Lazzem, S., & Jilani, F. (2018). The Impact Of Leverage On Accrual-Based Earnings Management: The Case Of Listed French Firms. Research In International Business And Finance, 44, 350–358.*

xli. *Lemma. (2013). Determinants Of Earnings Management: Evidence From Around The World Tesfaye Lemma, Minga Negash And Mthokozisi Mlilo, 1–56.*

xlii. *Loomis, C. J. (1999). Lies, Damned Lies, And Managed Earnings. Fortune, 140(3), 74–92. Fortune, Vol. 140, No.2: pp.74-92.*

xliii. *Lopes, A. P. (2018). Audit Quality And Earnings Management. Athens Journal of Business & Economics - Volume 4, Issue 2 – Pages 179-192*

xliv. *Man, C. K., & Wong, B. (2013). Corporate Governance And Earnings Manageme. A Survey Of Literature. Journal of Applied Business Research,*

xlv. *Nekhili, M., Fakhfakh, I., Amar, B., Chtioui, T., & Lakhal, F. (2016). Free cash flow and earnings management:The moderating role of governance and ownership. The Journal of Applied Business Research, 32(1), 255-268.*

xlvi. *Nouri, S., & Gilaninia, B. (2017). The Effect Of Surplus Free Cash Flow And Audit Quality On Earnings Management. International Journal Of Economics And Financial Issues, 7(3), 270–275.*

xlvii. *Nugroho, B. Y., & Eko, P. U. (2012). Board Characteristics And Earning Management. Bisnis & Birokrasi Journal, 18(1).*

xlviii. *Obigbemi, I. F., & Omolehinwa, E. O. (2016). Earnings Management And Board Structure : Evidence From Nigeria. Https://Doi.Org/10.1177/2158244016667992*

xlix. *Parveen. (2016). Impact Of Ownership Structure On Earnings Management : Evidence from Pakistani Banking Sector, 23, 24–34.*

l. *Pate, R. R., Pratt, M., Blair, S. N., Haskell, W. L., Macera, C. A., Bouchard, C., King, A. C. (1995). Physical activity and public health: a recommendation from the Centers for Disease Control and Prevention and the American College of Sports Medicine. Jama, 273(5), 402–407.*

li. *Prior, D., Surroca, J., & Tribó, J. A. (2008). Are socially responsible managers really ethical? Exploring the relationship between earnings management and corporate social responsibility. Corporate Governance: An International Review, 16(3), 160–177.*

lii. *Rajpal, H., & Jain, P. (2018). Auditor ' s Characteristics and Earnings Management in India, 7(4), 43–58. https://doi.org/10.5430/afr.v7n4p43*

liii. *Rusmin, R. (2010). Auditor quality and earnings management: Singaporean evidence. Managerial Auditing Journal, 25(7), 618–638.*

liv. *Saleem, E., Alzoubi, S., Saleem, E., & Alzoubi, S. (2016). Audit quality and earnings management : evidence from Jordan. https://doi.org/10.1108/JAAR-09-2014-0089*

lv. *Sarkar, J., Sarkar, S., & Sen, K. (2008). Board of directors and opportunistic earnings management:*

Evidence from India. Journal of Accounting, Auditing & Finance.

lvi. *Schipper, K. (1989). Earnings management. Accounting Horizons, 3(4), 91.*

lvii. *Sellami, M., & Adjaoud, F. (2010). La gestion réelle des résultats: le cas des entreprises françaises. In Crises et nouvelles problématiques de la valeur (p. CD-ROM).*

lviii. *Shirzad, A. (2015). The effect of corporative leverage on earnings management in Drug industry, 6(17), 119–124.*

lix. *Singh, A. K., Aggarwal, A., & Anand, A. K. (2017). Corporate Governance Mechanisms And Earnings Management In India: A Study Of Bse-Listed Companies. Delhi Business Review, 18(1), 43–54.*

lx. *Susanto, Y. K., Pradipta, A., & Djashan, I. A. (2017). Free Cash Flow And Earnings Management : Board Of Commissioner , Board Independence And Audit Quality, 14(4), 284–288. https://doi.org/10.22495/cocv14i4c1art10*

lxi. *Thi, H., Khanh, M., & Khuong, N. V. (2018). Audit Quality , Firm Characteristics and Real Earnings Management : The Case of Listed Vietnamese Firms, 8(4), 243–249.*

lxii. *Thiruvadi, S., & Huang, H.-W. (2011). Audit committee gender differences and earnings management. Gender in Management: An International Journal, 26(7), 483–498.*

lxiii. *Tsipouridou, M., & Spathis, C. (2012). Earnings management and the role of auditors in an unusual IFRS context: The case of Greece. Journal of International Accounting, Auditing and Taxation, 21(1), 62–78.*

lxiv. *Vives, X. (2006). Banking and Regulation in Emerging Markets : The Role of External Discipline, 179–206. https://doi.org/10.1093/wbro/lkl002*

lxv. *Watts, R., & Zimmerman, J. (1986). Positive accounting theory. Englewood Cliffs, Prentice- Hall.*

lxvi. *Yasser, S., & Soliman, M. (2018). The effect of Audit Quality on Earnings Management in Developing Countries: The Case of Egypt. International Research Journal of Applied Finance, 9(4), 216–231.*

lxvii. *Zakaria, N. B., Mohd-sanusi, Z., & Selahudin, N. F. (2014). Remodelling the Earnings Management with the Appearance of Leverage , Financial Distress and Free Cash Flow : Malaysia and Thailand Evidences.Journal of Applied Sciences.*

lxviii. *Zamir, O., & Etzioni, O. (1998). Web document clustering: A feasibility demonstration. In Proceedings of the 21st annual international ACM SIGIR conference on Research and development in information retrieval (pp. 46–54).*

lxix. *Zamri, N., Rahman, R. A., & Isa, N. S. M. (2013). The impact of leverage on real earnings management. Procedia Economics and Finance, 7, 86–95.*

lxx. *Zhang, X. L. (2016). Study on Cash Flow Manipulation and Earnings Management-Based on Empirical Evidence of China Listed Companies' SEO. International Journal of Business and Social Science, Vol. 7, No. 9.*