Webology (ISSN: 1735-188X)
Volume 19, Number 4, 2022

Influence of CEOs Characteristics on the Earning Management via Moderating Role of Audit Committee Independence in Perspective of Pakistan

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Abstract

In order to improve organization performance and earnings management, the Chief Executive Officer appears to be the most influential member of the organization as they exercise authority over corporate policies such as financial statement, board structure, and organizational performance. To accomplish the linkage of CEOs characteristics on earnings management in non-financial firms, listed on the Pakistan Stock Exchange and use the independence of audit committee as a moderator to capture the influence on the firm's performance. To accomplish the objective, selected firms listed on the Pakistan Stock Exchange were employed with the span 2010 to 2018. To assess the linkage between the characteristics of the CEOs and earnings management, the GMM model was utilized. The results of the GMM elaborates that CEO tenure and presence of independence of audit committee have a positive and significant impact on earning management. While, CEO duality have a positively and significantly linked with earning management. The presense of the audit commettie improve the performance and earning management of the firm. While employing the more CEO's attributes of the can also influence the performance and earning management.

Keywords: CEO age, Duality, Experience, Audit Committee Independence, and Earning Management.

1.0 Introduction

Earning is a type of corporate performance in which the Chief Executive Officers (hereafter CEOs) play a vital role in deciding how earnings are managed where accounting principles allow for management choice and choice over different accounting treatments (Nguyen et al. 2021). Earning management is the practicing executive decisions that apply to accounting principles or business transactions, which ultimately influence the recorded earnings in financial reports (Healy and Wahlen 1999).

Generally, CEOs are treated as essential individuals in an organization. In company decisions, CEOs exercise control, including the release of financial data and the board's power, and then they are accountable for firm results (Chou and Chan 2018). As a result, CEOs are responsible for the company's results and may influence the financial report that provides the company's financial performance and cash flows (Nguyen et al. 2021); (Chou and Chan 2018).

Earning management may be categorized as managerial discretion in applying accounting standards or creating actual business transactions in financial reports to influence reported earnings (Healy and Wahlen 1999). It is assumed that the discretion of top executives directly affects organizational efficiency under the upper echelon theory (Hambrick and Fukutomi 1991).

CEO characteristics include experiences, ethics, personalities (Chen et al. 2019); (Chou and Chan 2018), age, CEO duality, credibility, and competence (Chin et al. 2017) and (Zouari et al., 2015), regarding decision-making about earning management is much important to achieve a high rank. However, (Watkins-Fassler and del Carmen Briano-Turrent 2019) explain that CEOs with high professional skills and experience enhance the company's short-term performance. Therefore, CEOs play a vital role in the tactical decision-making of companies (Naseem et al. 2020). Furthermore, the studies (Masulis and Mobbs 2017); (Wang et al. 2015); (Klein 2002) affirm that tenure of the CEO, age, compensation, experience, and duality regarding decision-making influence earning management.

(Wang et al. 2015) provide evidence that knowledge and well experience may reduce the opportunity to manipulate a financial statement by practicing effective management. In addition, numerous studies of developed countries focus on the association between personal characteristics of CEOs (such as age, overconfidence, and gender and earning management (Gupta and Mahakud 2020).

The prior study has widely discussed the linkage between executive characteristics and organizational performance. These features include the tenure of CEOs (Gjerløv-Juel 2019); (Ali Aribi et al. 2021); (Zubaidah et al. 2021); (Rizki et al. 2021); (Wicaksana et al. 2017), CEOs' age (Komal et al. 2021); (Wicaksana et al. 2017); (Elhawary and Hassouna 2021), gender of CEOs (Rizki et al. 2021), education history of CEOs (Trisanti 2021); (Islam et al. 2019). We, therefore, draw the theory of the upper echelons and the idea of the agency observes the interaction between features of CEOs and earning management.

It will be essential to explore how the independence of the audit committee moderates the relationship between the features of CEOs and earning management (Bassyouny et al. 2020)

(Qu et al. 2020). In prior research, audit committee independence has usually been examined. It is commonly claimed to be one of the main attributes of the audit committee's effectiveness. However, audit committee independence is a complex instrument for creative earning management activities. They reveal the independence of the audit committee is adversely and firmly interrelated to the earning management methods (Mohd Saleh et al. 2007).

This research aims to find out the relationship between CEO qualities and earnings management, utilizing audit committee independence as a moderator. Previous research focused on determining CEO attributes' random and fixed effects on earnings management. This study differs from others in respect that it combined the characteristics (age, tenure, and duality) of the CEO and the impartiality of the audit committee concerning the methodology of the generalized method of moments (GMM) to elaborate on the link between CEO's characteristics and earnings management through the channel of the audit committee's independence. i.e., how earning management can be influenced by the freedom of the Audit Committee when CEO has stated features. Moreover, this study tries to fill the gap found in the literature with the assistance of the modern technique.

1.2 Objectives of Study

The following objectives are met in this study:

- To measure the association between age, tenure, and duality of CEOs and earnings management.
- To measure the interaction of independence of Audit Committee and the age tenure and duality of CEOs with earning management.

1.3 Problem Statement

Earnings management is a comprehensive accounting process that allows managers to manipulate reported earnings, leading them to be greater or lower than reported. The audit committee's independence is critical in the management of financial operations. The engagement of the audit committee's independence can also substantially impact the firm's profit management.

1.4 Research Questions

The following questions are addressed in this research:

- How do CEO age, tenure, and duality influence the earning management?
- How does audit committee independence moderates the link between the age, tenure, and duality of CEO and earning management?

1.5 Research Hypothesis Statements

H1. The age of CEOs has a positive association with earnings management.

H2. Independence of the audit committee moderates the link between CEOs' age and earnings management.

H3. The CEO's tenure has a positive association with earnings management.

H4. Independence of the audit committee moderates the link between CEOs' tenure and earning management.

H5. The CEOs' duality has a positive association with earnings management.

H6. Independence of the audit committee moderates the link between earning management and CEOs' duality.

1.6 Significance of Study

This research investigates the influence of CEO characteristics that may be useful in understanding the earning management phenomena in the emerging economy. Furthermore, the audit committee's independence is used as a moderator to aid researchers in understanding the moderating influence on the link between earning management and the characteristics of the CEOs.

2.0 Literature Review

Numerous research work is available to enlist the influence of CEO characteristics, which affect earning management, but these studies utilized the different theories one by one. Here the perspective of different theories is enlisted.

2.1 Upper Echelons Theory:

According to the hypothesis, the theory of the upper echelon states that CEO qualities influence their strategic decision-making. Indeed, according to the Upper Echelon Theory, CEOs' attributes and specific competencies may influence strategic decisions, business value development, and corporate financial reporting decisions(Abbas and Abbas 2021); (Derda 2017).

2.2 Agency Theory

According to the Agency theory, information asymmetry motivates CEOs to take the actions necessary to improve their status and increase their value. (Panda and Leepsa 2017) define the agency theory as an arrangement in which one or more entities ask another entity to perform specific functions on their behalf, including providing the representative some decision-making authority (Bendickson et al. 2016).

2.3 Empirical Review

To find personal benefits, (Kuang et al. 2015) notes that earning management is an engagement in financial reporting. In addition, the prior study has widely discussed the linkage between executive characteristics and organizational performance. These features include the tenure of CEOs(Fagbemi et al. 2020); (Osemene et al. 2018), CEO Age (Le et al. 2020), gender of CEOs (Harris et al. 2019), education history of CEOs(Le et al. 2020). Therefore, we draw the theory of the upper echelons and the theory of the agency that observes the interaction between features of CEOs and earning management.

CEO qualities and Audit Committee independence might favor or negatively influence earnings management. Contrary, discover that organizations with female CEOs have worse income management than their male counterparts and that there is a significant but negative relationship between income management and female senior managers (Harris et al. 2019).

(Serfling 2014) finds that, relative to older CEOs, younger CEOs are less likely to participate in earnings management. (Xie et al. 2003) reports that the more youthful or new CEOs are likely to invest more viciously to demonstrate their skills and success in the short term. They need to be acknowledged. For this reason, we expect that more earning management will be observed as the age of CEOs increases. We test hypothesis 1 by considering this evidence.

(Yim 2013) and (Serfling 2014) propose that the age of CEOs affects earnings regulation. There is a clear theoretical foundation in terms of integrity for believing the reputation of CEOs to be important in corporate practice. Under this theory, managers make strategic choices rather than opportunistically maximizing the benefit of shareholders to improve their picture (Jiang et al. 2011); (Khuong and Vy 2017).

(Ali and Zhang 2015)assess the shift in the incentives offered to handle the company's earnings during their tenure as CEO. The researchers use the sample duration from 1992 to 2010 to estimate the accruals and the actual behavior based on earnings control measures. They state that the overestimated earnings are considerably higher than in the later service in the tenure of CEOs. The effect of assignment on earnings control is investigated by (Hu et al. 2015).

2.2.1 CEO Age and Earning Management:

(Panda and Leepsa 2017), newer managers retain more motivation to engage in expanding performance after acquiring management than their older colleagues. According to agency theory, when CEOs approach retirement age, the interests of managers and stockholders are allied. In this era, CEOs are no longer capable of increasing their own fortune. All executives have experience based on their prior upbringing and age (Hambrick and Mason 1984).

2.2.2 CEO Tenure and Earning Management

CEOs with a longer tenure in a firm have tight social networking relationships with various financial foundations due to their information ability (Ilori and Ajiboye 2016). Furthermore, it should be highlighted that the higher the earning management, the longer the CEO's tenure. Therefore, longer term is essential for maximizing a CEO's genuine abilities.

(Tang and Chen 2020) investigates the relationship between CEO tenure and bank misbehavior in the United States. The CEO of Tenure has a favorable impact on income management. Their study incorporates the corporate governance variable as a moderating variable, converting earning management to earnings manipulation, which includes opportunistic earnings management behavior, resulting in earnings manipulation being reliant, as evaluated (Jaya Kirana et al. 2020).

2.2.3 CEO Duality and Earning Management:

According to the Malaysian code of corporate governance (2000), separating the posts of Chairman and CEO enhances accountability and enables the distribution of tasks between them. Furthermore, the Cadbury report advised that all publicly traded firms not play a dual role to maintain a balance of power and authority that leads to more independent boards (Allolinggi et al. 2021). Fraud is frequently committed by the CEO of a company who also serves as the president (Fakhfakh and Jarboui 2020). On the other hand, sees a positive link between leverage and the CEO's split personality (Nipper 2021). Similarly, the CEO's dualism and leverage have a good but minor relationship (Almadi and Lazic 2016).

2.2.4 The Moderating Role of Audit Committee Independence

A significant goal of forming an Audit Committee is to reduce the organization's information and costs imbalance between the principal and the agent. As a result, Audit Committee sits at the top of a firm, reporting straight to the Board of Directors (Zalata et al. 2018). The independence of the Audit Committee is frequently seen as the Board of Directors' most essential instrument for improving the quality of financial statements (Liu et al. 2016). Furthermore, multiple studies demonstrated that the affectivity of the Audit Committee results in a higher quality financial statement (Widi Hidayat 2020). As a result of recent corporate fraud and significant accounting scandals, authorities have placed a greater emphasis on the value of Audit Committees in reviewing financial statements(Zalata et al. 2022).

3.0 Theoretical and Econometric Methodology

3.1 Conceptual Framework

Figure 4.1 shows the conceptual model of this study. This research examines the relationship between different characteristics of CEOs and earning management and considers the moderating role of the independence of the audit committee in this relationship. On the left-hand side, the various attributes of CEOs variables are listed, which comprise three variables: CEOS Age, CEOs Tenure, and CEOs Duality; all of these are used as independent variables in the current study. It is linked with the earning management on the right-hand side, calculated by the modified (Jones 1995) model and (Kothari et al. 2005) model. Audit Committee independence is treated as a moderator in this study. The following conceptual model must be understood to understand the hypothesis based on prior research investigations properly.

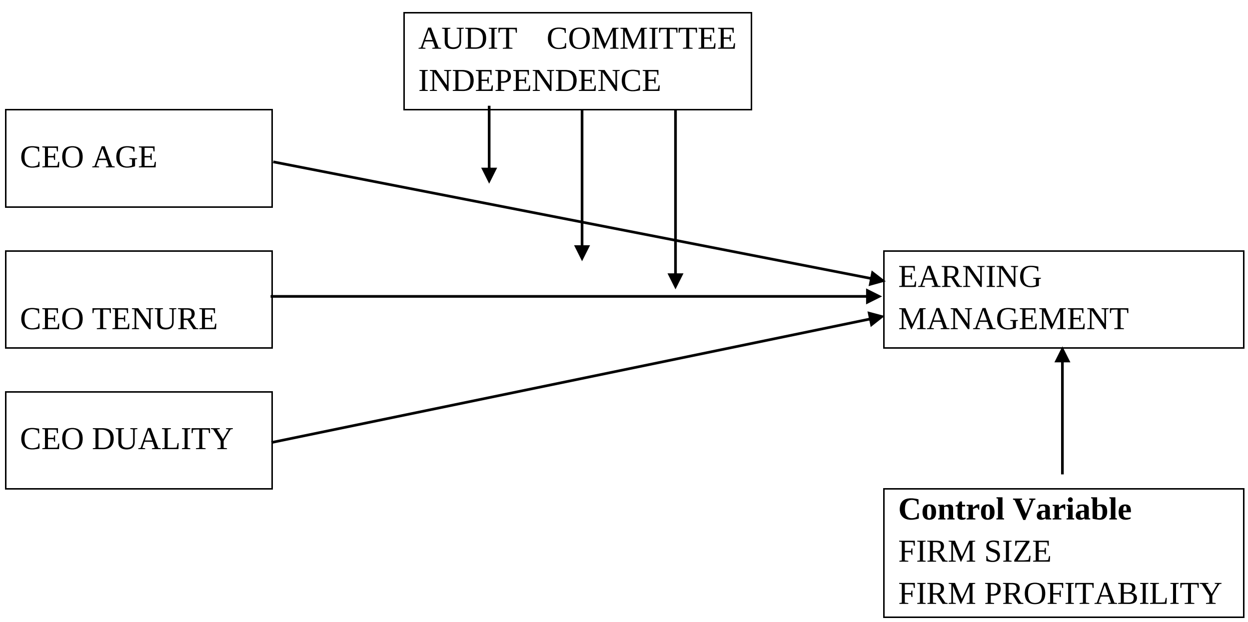

Figure 4.1: Research Framework

The study employed different CEOs' attributes in the following way.

$$DA_{i,t} = \alpha + \beta_1 CEO\ Age_{i,t} + \beta_2 CEO\ Ten_{i,t} + \beta_3 CEO\ Dual_{i,t} + \beta_4 FSiz_{i,t} + \beta_5\ FROA_{i,t} + \beta_6 Cage * AIC + \beta_7 CTen*AIC + \beta_8 CEO\ DUAL * AIC$$

The research sample consists of 121 non-financial firms on the Pakistan Stock Exchange. The data is collected from 2010 to 2020, fulfilling the current study's criteria. The final sample is consisted of 1053 company observations for the year of 121 firms. The selection comprises numerous non-financial industries such as sugar, spinning, weaving, composite units of the textile sector, cement, chemical, oil and Gas, power and distribution, automobile, leather, tobacco, and Paper and Board. The sample is taken from non-financial firms listed on the Pakistan stock exchange. However, non-Financial firms have a high share of Pakistan's stock exchange and different capital structures compared to financial firms.

4.0 Results and Discussion

Using two models: Jones modified (1995) and (Kothari et al. 2005) this study focuses on discretionary accruals as a strategy to control a firm's profitability . The descriptive statistics come first, followed by correlation analysis. The regression analysis findings are then exhibited and analyzed to see whether the hypotheses are affirmative are not.

Table 4.1 Descriptive Statistics

VARIABLES	OBS	MEAN	STD. DEV	MIN	MAX
MODIFIED JONES (1995)	934	0.029	0.112	-0.159	0.28
KOTHARI et al., (2005)	934	0.004	0.106	-0.189	0.239
CEOA	1053	3.984	0.156	3.367	4.369
CEOT	1053	2.409	0.161	0.3664	0.693
FSIZE	1053	6.706	0.726	4.286	8.824

The descriptive statistics analysis is summarized in Table 4.1; the minimum EM, according to the modified Jones model and the Kothari model, is - 0.159 and -0.189, respectively, and the highest values are 0.28 and 0.24, with mean values of 0.029 and 0.04. Furthermore, 0.106 has a standard deviation of 0.112, 0.112. The CEO age is 3.984 on average, with lowest and maximum values of 3.367 and 4.369, respectively, and a standard deviation of 0.156. With a standard deviation of 0.161, the mean value of Log of CEO Tenure is 2.409, with the lowest and highest values of 0.693 and 0.3664, respectively. The business size was calculated using the natural logarithm of total assets and has a mean of 6.706, a minimum of 4.286, and a maximum of 8.824, demonstrating a broad range of firm sizes. Profitability (ROA) ranges from a low of -51 percent (Loss) to a high of 55 percent (Profit), with a standard variation of 10%.

Table 4.2 Frequency Distribution of CEO Duality

FC	Freq.	Percent	Cum.
0	920	87.37	87.37

1	133	12.63	100.00
Total	**1053**	**100.00**	

Table 4.2 shows the frequency distribution of CEO duality. Column one contains dummy variables, with 0 indicating that the CEO is solely the Chairman of the company and one telling that the CEO is both Chairman and a member of the board of directors. The frequency of CEO duality is shown in column two. Out of 1053 observations, 920 firm-year words indicate that the CEO is only the firm's Chairman, accounting for 87.37 percent of all observations. Of the remaining 133 firm years, 12.63 percent of observations indicate that the CEO has dual voting power.

Table 4.3 Frequency Distribution of Audit Committee Independence

AIC	Freq.	Percent	Cum.
0	117	11.11	11.11
1	936	88.89	100.00
Total	**1053**	**100.00**	

Table 4.3 shows the frequency distribution of Audit Committee Independence (AIC) businesses. Column one contains dummy variables, with 0 indicating that the Audit Committee is not independent and one indicating that the audit committee is independent. The frequency of audit committee independence is shown in column two. There are 1053 total observations, with 117 firm observations indicating that the audit committee is not independent, accounting for 11.11 percent of actual observations, and 88.89 percent of firm observations indicating that the audit committee is independent, accounting for 936 firm observations.

4.4 Pairwise Correlation (Modified Jones 1995)

Variables	DA	CEOD	CEOT	CEOA	IAC	FSIZE	ROA	VIF
DA	1							
CEOD	-0.0228	1						1.06
CEOT	-0.0127	0.0609	1					1.07
CEOA	-0.0141	-0.0347	0.1119*	1				1.03
IAC	0.0230	0.0566	0.0480	-0.0044	1			1.01
FSIZE	0.0856*	0.0559	-0.1699*	0.0629	-0.0097	1		1.08
ROA	0.3619*	-0.2089*	-0.1220*	0.0120	0.0097	0.1557*	1	1.08

* Significant level at 10% level

To investigate the influence of CEO traits on earning management, we assessed whether the model had an econometric problem before completing the regression analysis. The subject of multicollinearity is initially investigated using correlation matrices. Table 4.4 demonstrates that the ROA and EM (modified Jones 1995) have the strongest association with a coefficient of 36%. The coefficient of 80% is regarded as a point where substantial multicollinearity difficulties arise, causing regression analysis findings to be harmed. As a result, the data set utilized in the model does not have this issue (Lan et al. 2008). The most excellent VIF value in the data set is 1.08, indicating no multicollinearity in the data set.

4.5 Pairwise Correlation (Kathori Model 2005)

Variables	DA	CEOD	CEOT	CEOA	IAC	FSIZE	ROA	VIF
DA	1							
CEOD	0.0504	1						1.06
CEOT	0.0274	0.0609*	1					1.07
CEOA	0.0014	-0.0347	0.1119*	1				1.03
IAC	0.0371	0.0566	0.0480	-0.0044	1			1.01
FSIZE	-0.0142	0.0559	-0.1699*	0.0629*	0.0629*	1		1.08
ROA	0.0224	0.2089*	-0.1220*	0.0120	0.0097	0.1557*	1	1.08

* Significant level at 10% level

To investigate the influence of CEO characteristics on earning management, we assessed whether the model had an econometric problem before completing the regression analysis. The subject of multicollinearity is initially investigated using correlation matrices. The most significant association, with a coefficient of 21%, is between the ROA and the CEO's Duality, as seen in Table 4.5. As per (Lan et al. 2008), the coefficient of 80% is regarded a point where substantial multicollinearity difficulties arise, causing regression analysis findings to be harmed. As a result, the data set utilized in the model does not have this issue. The most incredible VIF value in the data set is 1.08, indicating no multicollinearity in the data set.

4.6 CEO Age Audit Committee and Earning Management

Variables	Model 1 (GMM)	Model 2 (GMM)
CEOA	-.01658 (0.02) **	-.0115 (0.05) **
IAC	-20.22 (0.00) ***	3.32 (0.03)**
IAC x CEOA	4.994 (0.00) ***	-13.53 (0.03)**
FSIZE	.0976 (0.44)	.1903 (0.09)*
ROA	.9557 (0.05) **	.5682 (0.176)
Observations		689
AR1 P-Value	0.001	0.000
AR2 P-Value	0.083	0.009
Sargan Test (p-value)	0.935	0.331

Notes: P-Value (in parenthesis) and Coefficient determinants are reported in the above tables. The negative coefficient means there is a negative relationship, and no sign indicates a positive relationship between variables.

The asterisk with the coefficient shows the level of significance of the p-value. Model-1 shows DA calculated by Modified Jones Model, and Model-2 shows DA calculated by

Kathori Model. In this study, we have three levels of significance: *p < 0.10, **p < 0.05, ***p < 0.01moderating impact of variables.

Table 4.6 shows how cross-sectional panel regressions were used to investigate the relationship between CEO age and earnings management. Earning management is adversely correlated with CEO age. In the Kathori model, the interaction between the Audit Committee's independence and the CEO's age has a negative relationship with earnings management. When the Hansen -J Chi-Sq p-value is more significant than 5%, the GMM test indicates that the fixed effect results are credible. The GMM model results suggest no problems with the data's robustness, heteroskedasticity, autocorrelation, or causality.. As a result, we employ the GMM Model. The findings of regression coefficients are provided in the same Table 5.6, demonstrating the influence of the CEO's age on EM. These findings support (Huang et al. 2012) but contradict (Olowokure et al. 2015);(Alzoubi et al. 2013), who claim that earning management increases as CEOs approach retirement and that elder CEOs are more inclined to deploy accounting results. The interplay between the Audit Committee's independence and the CEO's age with earnings management has a favorable and substantial relationship. The Audit Committee's independence negatively and severely impacts earnings management. This finding backs up H1, which claims a link between CEO age and earnings management. As a result, H1 is valid. These findings were also validated using the GMM estimation approach, which yielded a Sargan -test (p-value) of 0.331, which is statistically significant. The amount of earning management is favorable and strongly associated with the log of total assets and ROA.

4.7 CEO tenure Audit Committee and Earning Management

Variables	Model 1 (GMM)	Model 2 (GMM)
CEOA	0.1543 (0.00)***	0.1543 (0.00)***
IAC	3.6794 (0.00)***	-1.3582 (0.00)***
IAC x CEOA	-1.3582 (0.00)***	3.6794 (0.00)***
FSIZE	0.0904 (0.00)***	0.0904 (0.00)***
ROA	0.3755 (0.27)	0.3755 (0.278)
Observations	698	698
AR1 P-Value	0.000***	0.000***
AR2 P-Value	0.434	0.426

Notes: P-Value (in parenthesis) and Coefficient determinants are reported in the above tables. The negative coefficient means a negative relationship, and no sign means a positive relationship between variables.

The asterisk with the coefficient shows the level of significance of the p-value. Model-1 shows DA calculated by Modified Jones Model, and Model-2 shows DA calculated by Kathori Model. In this study, we have three levels of significance: *p < 0.10, **p < 0.05, ***p < 0.01moderating impact of variables.

According to hypothesis H2, Table 4.7 depicts the link between CEO tenure and the interaction between Audit Committee independence and earnings management using the GMM Test. GMM, on the other hand, uses the precise moments of random variables instead of assumptions about the overall distribution, making it more resilient than the previously mentioned approaches at the expense of efficiency. Moment conditions are the underlying assumptions. Furthermore, GMM addresses data issues such as endogeneity, auto-correlation, heteroskedasticity, and reverse causality.
The method GMM, which permits the number of moment conditions to be greater than the number of parameters. The estimator is considered over-identified when there are more moment conditions than parameters. When the estimator is over-identified, GMM can efficiently combine the moment situations. In all models, the findings of the GMM model show a positive and substantial relationship between CEO tenure and earning management. However, in the modified jones model, the interaction between the Audit Committee's independence and the tenure of the CEO is negative and substantial. Still, in the Kathori model, it is positive and significant. These findings were validated using the GMM estimation approach, with a Sargan -test (p-value) of 0.000, indicating they are substantial. The amount of earning management is favorable and strongly associated with the log of total assets and ROA.

4.8 CEO duality Audit Committee and Earning Management

Variables	**Model 1 (GMM)**	**Model 2 (GMM)**
CEOA	0.3164 (0.04)**	0.2958 (0.08)*
IAC	-0.0466 (0.76)	-0.3407 (0.58)
IAC x CEOA	-0.7764 (0.15)	-0.1514 (0.47)
FSIZE	0.1799 (0.01)***	0.3101 (0.00)***
ROA	0.9730 (0.00)***	0.9097 (0.03)**
Observations	698	698
AR1 P-Value	0.000	0.000
AR2 P-Value	0.196	0.149

Notes: P-Value (in parenthesis) and Coefficient determinants are reported in the above tables. The negative coefficient means a negative relationship, and no sign means a positive relationship between variables.

The asterisk with the coefficient shows the level of significance of the p-value. Model-1 shows DA calculated by Modified Jones Model, and Model-2 shows DA calculated by Kathori Model. In this study, we have three levels of significance: *p < 0.10, **p < 0.05, ***p < 0.01moderating impact of variables.

The relationship between CEO duality and earnings management is investigated following hypothesis H3. A dummy variable was used to investigate this relationship. The regression findings suggest that the CEO duality and discretionary accruals have a positive and substantial association. The result supports Hypothesis 3 by indicating that a CEO with a dual position is more likely to influence earnings. This conclusion is consistent with (Kudin 2020); (Ghosh et al. 2015), all of which found a favorable association between CEO dualism and earnings management. It demonstrates that a dual responsibility CEO is more motivated to control profitability. The CEO's dualism gives them greater power. Managers' capacity to supervise the firm's director is harmed by the CEO's dual job, which exacerbates the agency's challenges.

Table 4.8 shows regression estimates for examining the association between earnings management and CEO duality and the moderating influence of the Audit Committee's independence on the relationship. The GMM model was used on our data to investigate this association. According to GMM findings, CEO duality has a favorable and substantial connection with earnings management. (Kudin 2020); (Ghosh et al. 2015), and (Sehrawat et al. 2020), predicted a positive association between CEO dualism and the most significant levels of accrual earning management, corroborating. With both models, the combination between Audit Committee independence and CEO duality has a negative and substantial relationship with earnings management. The amount of earning management is favorable and strongly associated with the log of total assets and ROA.

5.0 CONCLUSION

This research study is arranged to examine the impact of a manager's age, tenure, and duality about earning management on the standard of financial disclosure in the presence of audit committee independence. For this goal, this study customized the sample of 128 non-financial enterprises listed on the Pakistan stock exchange, with data from 2010 to 2018. The study utilized two models, Modified Jones (1995) and (Kothari et al. 2005), for calculating earning management with audit committee independence as an interaction with the assistance of a generalized model of moments.

The modified Jones (1995) results disclose that CEO age has a negative and substantial connection with earning management. Still, the interplay between audit committee independence and CEO age has a positive and significant link with earning management. However, CEO tenure has a positive and substantial connection with earnings management, but the interplay between audit committee independence and CEO tenure has a negative influence on earnings management. Where CEO duality has a good and substantial link with earnings management, the interplay of audit committee independence with CEO duality has an inverse relationship with earnings management.

But, the results of (Kothari et al. 2005) state that there is a negative and substantial link between CEO age and earning management, as well as a negative and significant relationship between the Audit Committee's independence and the CEO's age. Although the CEO's duration has a good and substantial link with earnings management, the combination of the Audit Committee's independence and the CEO's tenure has a beneficial influence on earnings management. Furthermore, whereas CEO duality has a positive and substantial link with earnings management, the interplay of independence of the audit committee with CEO duality has a negative relationship with earnings management.

The study finds that age is negatively and strongly linked with earnings management strategies for both models. These findings suggest that younger CEOs are more likely to manipulate earnings to get better results. However, when the Audit Committee is independent, the conclusion shows that older CEOs influence earnings management more than younger CEOs.

The tenure is positively and significantly related to earnings management, implying that when a CEO departs the company, earnings management appears to increase owing to retirement perks. One possible explanation for this outcome is that in a small company setting like the emerging economy, the CEO is frequently re-appointed as CEO or to other critical jobs inside the firm. Even if he quits the firm, he maintains personal and professional ties. However, in the absence of audit committee independence, the results show that freshly appointed CEOs distort earnings management more than CEOs approaching retirement.

Moreover, CEO duality has a favorable and significant influence on earnings management, implying that when the CEO serves as Chairman of the Board of Directors, earnings management improves. When the CEO and Chairman of a company are the same people, he has more authority to influence board members and diminishes the effectiveness of board oversight. However, in the presence of Audit Committee independence, the conclusion implies that if the CEO holds both posts, he will be less likely to influence earnings management. Furthermore, this research aids aspiring researchers in analyzing the factors that impact earning management.

5.1 Managerial and Theoretical Implication

Such findings can aid shareholders in choosing the correct CEO and financial statement readers in inferring the consistency of the manager's accounting statistics. This study's results indicate appropriate governance behavior standards to minimize the manager's opportunistic performance.

5.2 Limitation of Study

The new study does, however, have certain limitations. It should be highlighted. However, the study limitations do not imply research failure. The findings of this study are mainly focused on non-financial enterprises; however, future research should focus on the financial sector, which is becoming increasingly important for emerging economies, notably Pakistan. The smaller sample size imposes the first barrier due to the lack of all essential data for 2010 to 2020. The second has to do with the critical metrics of certain variables. In the third scenario, the difficulty of gathering data related to CEO profiles limited the capacity to investigate additional behavioral and demographic characteristics.

5.3 Future Direction

Researchers should enhance future studies by looking at the impact of other managerial attributes on CEO characteristics and the earning management connection. More qualities that may impact earning management, such as gender, experience, marital status, religion, narcissism, civil status, and other characteristics that recognize his profile, may be included in the CEO's profile. Additional research that may consist of all the firms listed on the Pakistan stock exchange in all industries, including financial enterprises, and compares the outcomes of the various sectors should be conducted. Furthermore, we recommend that all Pakistani enterprises (listed and unlisted) be considered and that real earning management be used to measure the quality of the financial disclosure. Many questions have arisen due to this research that needs further investigation. Such limitations offer possibilities for future research on this topic, such as looking into another function that affects income management, such as CEO honorific title, gender, strength, ethnicity, nationality, experience, and founder. However, a qualitative technique might be used to investigate the future relationship between CEO traits and EM (i.e., interviews). A qualitative process can help collect data that is difficult to get using a quantitative approach.

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