

Moderating Role of Ownership Concentration on the Relationship between Audit Committee Independence and Earnings Management of Listed Firms at NSE, Kenya

 Munang'kaiy Noellyne ¹,  Koske Naomi ¹ and  Bonuke Ronald ²

¹Department of Accounting and Finance, School of Business and Economics, Moi University, P.O. Box 3900-30100, Kesses, Eldoret, Kenya

²Department of Management Science, School of Business and Economics, Moi University, P.O. Box 3900-30100, Kesses, Eldoret Eldoret, Kenya

Abstract

The financial report should not be deliberately prepared to misinform users. Rather, the statement should provide reliable, relevant, and timely information to assist investors in decision-making. Earnings management reduces the quality of reported earnings and their usefulness for decision-making, as well as lowering investor confidence. It is in this context that the study specifically established the effect of audit committee independence and ownership concentration on earnings management and the moderating effect of ownership concentration on the relationship between audit committee independence and earnings management of listed firms on the Nairobi Securities Exchange, Kenya. The study was guided by agency theory and fraud triangle theory. The study used a longitudinal and explanatory research design, targeting 65 listed firms on the Nairobi Securities Exchange, Kenya. Only 40 firms were surveyed after the inclusion and exclusion criteria for a period of 6 years, giving a total of 240 firm-year observations. The study employed secondary data collection using a data collection schedule. The data collected was analyzed using descriptive and inferential statistics and presented in tables. The regression results revealed that audit committee independence had a positive and significant ($\beta = 0.082$; $P = 0.000$) effect on earnings management and that ownership concentration strengthened the relationship between audit committee independence and earnings management ($\beta = 0.505$; $P = 0.000$). The study concluded that higher audit committee independence is associated with increased manipulation of earnings and ownership concentration strengthens the positive link between audit committee independence and earnings management.

Keywords: Audit committee independence, earnings management, ownership concentration, corporate governance, Nairobi Securities Exchange (NSE)

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Correspondence: nmunangkaiy@yahoo.com

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Introduction

Every company establishes specific goals within their business activities, aiming to achieve them during operations; one of these goals is to generate profit. Profit is the most critical item in financial statements. These statements serve as the main source of information used by both internal and external entities. Their purpose is to present an accurate and fair view of a business's financial position and performance (Al-Dmour, 2018). However, in practice, there may be opportunities to influence accounting information through various methods and techniques, which can cause financial statements to lose their reliability, misrepresent data, and manipulate profit figures. When making financial decisions, managers select from different alternatives with the goal of maximizing expected profits for their businesses (Valaskova et al., 2019).

The accuracy and transparency of financial reporting are essential for ensuring that investors and other stakeholders can make informed decisions (Juhmani, 2017). Unfortunately, some companies engage in earnings management practices to manipulate their financial statements, which can lead

to misleading information and potentially severe consequences (Inaam & Khamoussi 2016). Recently, many high-profile companies, such as Enron and WorldCom, went bankrupt after accounting scandals emerged, with manipulated reported earnings being a key factor in these scandals. These incidents have made earnings management a significant concern for various users of accounting information, including scholars, investors, and practitioners (Callao et al. 2014).

There are contributions from scholars and researchers both global and here in Kenya on the area of earnings management. (Chouaibi et al., 2019) carried out a study on how the real earnings management affect firms innovative? Evidence from US firms. Their main finding was the great influence of R&D intensity on the real earnings management index on the test sample. Accordingly, their proposed hypothesis stipulating that the innovative firms engage in upward real earnings management turns out to be strongly supported. Also, (Leventis & Dimitropoulos 2012) investigated the role of corporate governance in earnings

management behaviour by US listed banks during the era of the Sarbanes-Oxley Act (2003-2008). The research found convincing evidence that banks with efficient corporate governance mechanisms report small positive income to a lesser extent than banks with weak governance efficiency. Also, well-governed banks engage less in aggressive earnings management behaviour through the use of discretionary loan loss provisions and realized security gains and losses.

In the context of Africa, (Boachie & Mensah 2022) investigated the relationship between earnings management and financial performance of firms in Anglophone sub-Saharan African Countries in a dynamic framework. The study shows how this relationship is moderated by aggregate disclosure and best-practice corporate governance quality metrics. The findings indicate that earnings management's performance effects persist even after controlling for dynamic endogeneity, simultaneity, and unobserved time-invariant heterogeneity inherent in the earnings management and performance relationship. Again, the results support the prediction of agency theory regarding the efficient monitoring effect of adherence to best-practice internal governance systems in constraining firms' earnings management practices and subsequently enhancing firms' performance. Moreover, the study's findings regarding the positive effect of earnings management on performance, which suggests efficiency motives behind earnings management practices in Africa, demonstrate that the African context is uniquely different from other emerging markets that report opportunistic motives. Concerning the moderating role, their study revealed that the positive effect of earnings management on the financial performance of firms tends to be

stronger in the presence of corporate governance quality.

In Kenya, Outa et al. (2017) examined whether voluntary corporate governance (CG) code issued in 2002 constrain earnings management (EM) among listed non-finance companies in Kenya. The overall results showed that DA was not significantly related to CG suggesting the voluntary CG code does not deter EM in non-finance companies in Kenya. Further, (Outa et al. 2017) examined whether compliance with corporate governance (CG) requirements has constrained earnings management (EM) for companies listed in Kenya and Tanzania. The results showed that discretionary accruals (DAs) average about 11.3 per cent, whereas audit quality is negatively and significantly related to DAs. However, board independence, board gender diversity and director share ownership were positively and significantly related to DAs suggesting that CG may not have constrained EM. these studies shows that there exists a gap in literature therefore, the current study looks at how audit committee independence affects earnings management moderated by ownership concentration in Kenyan context.

The audit committee is a subcommittee of the board of directors responsible for overseeing the financial reporting process, ensuring financial statement accuracy, and compliance with laws and regulations. Some of the primary responsibilities of the audit committee include reviewing and approving financial statements, overseeing the external audit process, and monitoring the company's internal controls. the independence of the audit committee is an essential feature that affects earnings management. The independent audit committee can better detect and prevent earnings management practices because they are not subject to

the influence of the company's management. The independence of the audit committee is also vital in ensuring that the external auditor's performance is evaluated objectively (Dakhlallh et al. 2021). However, while audit committee independence AI is a key internal governance mechanism, its effectiveness might be constrained or enhanced by the firm's overall power structure, which is captured by ownership concentration. Therefore, studying AI and OC together is crucial to understand how the distribution of power among shareholders affects the audit committee's ability to limit EM.

The ownership concentration was used as a moderator in the study because it can either enhance or reduce the relationship between audit committee independence and earnings management. This is supported by (Lassoued et al. 2017) study that investigated whether ownership structure affects earnings management in the banking industry of emerging markets. The authors found convincing evidence that banks with more concentrated ownership use discretionary loan loss provisions to manage their earnings. The authors also found that state and institutional owners encourage earnings management, while family owners reduce this practice. The main objective of this study is to examine the moderating role of ownership concentration on the relationship between audit committee independence and earnings management among listed firms at the NSE, Kenya.

Theoretical Review

The paper was guided by agency and fraud triangle theory

Agency Theory

Agency theory was developed by Michael Jensen and William Meckling in 1976. This theory informed the audit committee independence and ownership

concentration variables. They defined the agency relationship as a form of contract between a company's owners and its managers, where the owners considered as principal appoint an agent the managers to run the company on their behalf. According to this theory, agents are engaged by principals for performing some services on the behalf of the principals (Meckling & Jensen 1976). This theory also states that the agents or managers can sometimes overlook principal's interest to obtain their own interest that may result in agency cost. The principal, in this case the shareholder always has the maximization of the value of the company as the priority and delegates management to the agent who is the manager whose objectives may be contrary to the principal's interests.

In relation to this study therefore, the management who are the agents manage reported earnings to suit their own interests, hence bringing about the agency conflicts between the parties. In such cases of disagreement between the parties due to self-interests, agency theory suggests better monitoring tool like ownership concentration as a solution they propose that monitoring should be conducted by the owners to reduce agency costs. According to Agency theory, conflict of interests between the principal and agent can be minimized through adoption of good corporate governance mechanism (Setiawan et al. 2020), such as the audit committee, and ownership structures.

Fraud Triangle Theory

The Fraud Triangle Theory was developed by an American criminologist Donald Cressey in the year 1963. This theory informed the earnings management variable. The fraud triangle is a model for explaining the factors that cause someone to commit Occupational fraud; it consists of three components

which, together, lead to fraudulent behavior. (Cressey, 1954) explains how a person performs a manipulation that is motivated by three components, namely pressure, opportunity and rationalization. Based on this theory, fraud is unlikely to exist in the absence of these three elements, and the severity of fraud depends on the strength of each element (Malimage, 2019). In basic terms, for an individual to make unethical decisions, perceived pressure, an opportunity, and a way to rationalize the behaviors must exist.

Breaking the Fraud Triangle implies that an organization must remove one of the elements of the fraud triangle in order to reduce the likelihood of fraudulent activities and of the three elements of fraud triangle, opportunity is the element management can exercise control and where fraud prevention can excel. Management can implement strong internal controls, effective supervision and oversight e.g. audit committee and severely discipline fraud perpetrators in order to prevent fraud. The theory is suitable for the above study as it points out the elements that push a perpetrator to commit the fraud which can be dealt with by putting in place an effective audit committee which in turn prevents the occurrence of earnings management.

Empirical Review

Audit Committee Independence and Earnings Management

Previous studies have indicated that independent Audit Committees (AC) play a role in curbing managers' opportunistic behaviors, yet the consensus on their effectiveness is mixed. The independence of the AC is a key formal mechanism of internal corporate governance, designed to provide an objective oversight of the financial reporting process. For instance, Jerubet et

al. (2017), studying listed firms in Kenya, found a notable negative correlation between AC independence and the quality of Financial Reporting (FRQ). Similarly, Akhor and Oseghale (2017) argued that an independent AC has a positive significant influence on EM reduction. Strong support for a mitigating effect comes from Mollik et al. (2020), who studied Australian firms during the global financial crisis and found that AC independence significantly mitigated firms' earnings management. However, the empirical findings are not unanimous, suggesting that the effectiveness of AC independence is not standalone but depends on the firm's overall power dynamics. This research argues that the effectiveness of the independent AC (a formal mechanism) can be either enhanced or undermined by the power of large owners (an informal/structural mechanism) captured by ownership concentration. In concentrated ownership environments, the objectives and monitoring activities of independent directors may be aligned with, or dominated by, the interests of the controlling shareholders, thereby affecting the AC's true ability to constrain EM.

Conflicting results highlight this context dependency. Li et al. (2012) found that, in the UK, audit committee independence was not associated with the quality of intellectual capital disclosure. Similarly, Abdul and Haneem (2006) could not establish a substantial link between AC independence and EM within the Malaysian setting. Furthermore, Kusnadi et al. (2016) cast doubt on the necessity of mandating all AC members as independent, finding that for firms already having a majority of independent directors, any incremental independence had no significant impact on financial reporting quality. This is further complicated by results such as those from Ben and Legendre (2017), who found that

a fully independent AC is associated with lower firm performance using French companies' panel data.

In the Kenya, Waweru and Riro (2013) identified ownership structure and board independence as the main corporate governance variables influencing EM. This finding supports the study's approach of jointly examining AC independence and ownership concentration to better understand EM drivers in the local market. Given the conflicting global evidence and the need to understand these variables in the specific context of concentrated ownership structures prevalent at the Nairobi Securities Exchange (NSE), this study proposes the following null hypothesis:

H₀₁: Audit committee independence has no significant effect on earnings management among firms listed in the Nairobi Securities Exchange, Kenya.

Moderating Role of Ownership Concentration and Earnings Management

Ownership concentration often curbs earnings management by enhancing monitoring and aligning interests between owners and managers. Large shareholders typically exert significant control, reducing managers' opportunities to manipulate earnings. However, extremely high concentration can lead to entrenchment, where controlling owners may engage in earnings management for personal gain. Usman and Yero (2012) examined ownership concentration and earnings management practice of the Nigerian listed conglomerates. It proxied earnings management using the modified Jones model. Using 30 firm-year paneled observations, they estimated panel OLS and controlled for fixed/random effects. The result shows a significant negative relationship between ownership concentration and earnings management. They concluded that ownership

concentration indeed moderates the practice of earnings management in Nigerian listed conglomerates, (Farouk & Bashir 2017) found that ownership concentration have a significant and negative effect on earnings management of listed conglomerates in Nigeria, (Maswadeh, 2018) investigated the effect of the ownership structure, which includes concentration ownership, institutional ownership and foreign ownership in the light of the debt ratio and company size as controlling variables in limiting the earnings management practices of the Jordanian industrial companies for the period 2012–2016. The hypotheses of the study were tested using the multiple regression models. Among the most prominent findings of the study are: the explanatory factor (R²) for the independent and control variables accounts for 38% of the change in the earnings management of the Jordanian industrial companies, moreover, a significant effect of the concentration ownership was found in the limitation of earnings management practices, and (Mwangi & Nasieku 2022) in their paper focused on how the three components of ownership structure affect earnings management of listed firms. That is to determine the effect of ownership concentration, managerial ownership, and institutional ownership on earnings management of listed firms. As per the Jones and modified Jones model, discretionary accruals were used as a measure of earnings management. The data was collected for the period from 2011 to 2019 from all listed manufacturing firms in Nairobi securities exchange. The study findings established that managerial ownership concentration have an insignificant effect on earnings management. The study indicated that while majority shareholders are keen to closely monitor the management to ensure that their interests are well

protected, this can only be attained if they have requisite skills, knowledge, and experience. The study also indicated that most pertinent is to have strong internal controls in place that seals all possible loopholes that could be exploited by the management to manipulate earnings.

H₀₂: Ownership concentration has no significant effect on the relationship between audit committee independence and earnings management among firms listed in the Nairobi Securities Exchange, Kenya.

Firm Size, Profitability and Earnings Management

Firm size is controlled because it significantly influences a firm's visibility and monitoring environment, which directly impacts the incentives and opportunities for EM. Larger firms are subject to greater scrutiny from regulators, analysts, and the public due to their prominence and scale of operations. This increased visibility provides a strong disincentive for opportunistic EM. Conversely, smaller firms may face higher marginal costs and less scrutiny, increasing their incentive to use EM to mask performance issues or meet market expectations (Lin et al. 2009). Larger firms are also expected to adopt stricter internal monitoring mechanisms, suggesting a greater demand for corporate governance effectiveness (Klein, 1998; Barton & Simko 2002). Previous studies generally support a negative relationship between firm size and earnings management (Abdul & Haneem, 2006). Firm size is calculated as the natural logarithm of total assets for each firm-year observation (Abbott et al. 2012).

Profitability is controlled because it directly affects the incentive for

managers to engage in earnings manipulation. Firms with low profitability may be under intense pressure to engage in income-increasing EM to avoid violating debt covenants, meet analysts' forecasts, or secure managerial bonuses. Conversely, highly profitable firms may engage in income-decreasing EM to smooth earnings or create reserves for future periods. Thus, a firm's financial health provides a strong motivational context for EM practices. Due to the mixed incentives (either to increase low profits or smooth high profits), the expected relationship between profitability and EM is theoretically ambiguous, but it must be controlled for to prevent spurious correlations between the main governance variables and EM. Profitability is measured using Return on Assets (ROA).

Conceptual Framework

The theoretical foundation of this study is visually represented in the conceptual framework, which posits that Earnings Management (EM), the dependent variable, is directly influenced by the key independent variable, Audit Committee Independence (AI). The framework introduces Ownership Concentration (OC) as a moderating variable, arguing that the relationship between AI and EM is not static but is either strengthened or weakened by the level of concentrated ownership within the firm. Furthermore, to isolate the true effect of these core governance mechanisms, the framework incorporates firm size and profitability as essential control variables, acknowledging their documented influence on managers' incentives and opportunities to engage in earnings management practices.

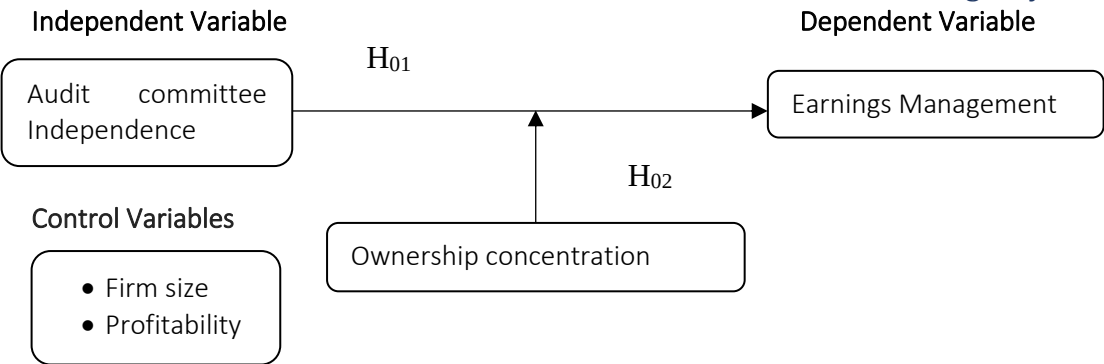


Figure 1: Conceptual Framework

Source: Author 2024

Methodology

The study employed a longitudinal and explanatory research design, utilizing secondary quantitative data. This approach is designed to demonstrate how specific variables impact others, aiming to elucidate the reasons behind the observed changes (Kerlinger et al. 2000). The explanatory nature is crucial for establishing the nature and significance of the relationships between the corporate governance mechanisms and earnings management. The study utilized panel data, which combines time-series observations across multiple cross-sectional units (firms). Data was sourced from Nairobi Securities Exchange Handbooks and published financial reports of the listed firms over a span of six years, from 2018 to 2023, yielding 240 firm-year observations. The selection of panel data is superior to cross-sectional data as it allows the researcher to account for unobserved firm-specific heterogeneity (unobservable differences between firms that do not change over time). This ability to control for time-invariant characteristics significantly helps to reduce omitted variable bias in the estimation, which is essential for accurately isolating the effect of audit committee independence and ownership concentration on earnings management. The period of study was chosen because it

covered years characterized by significant financial distress and corporate governance challenges at the NSE. The target population for the study was all firms listed on the Nairobi Securities Exchange (NSE) which were consistent throughout the study period (2018 to 2023), initially totaling 65 firms. The NSE was chosen as it is a leading and fast-growing securities exchange in an emerging market. The inclusion criterion required firms to have been continuously operational and listed from 2018 to 2023 with complete financial records. Applying the exclusion criterion resulted in the removal of 25 firms that were either not in continuous operation or had incomplete financial reports. Therefore, the final sample surveyed was 40 firms over the six-year period, yielding a total of 240 firm-year observations. Secondary quantitative data collected from the audited financial reports were keyed in, coded, cleaned, and analyzed using STATA version 13 software. The panel data analysis utilized both descriptive and inferential statistics. Descriptive statistics, including mean, standard deviation, median, minimum and maximum, were used to summarize the characteristics of the variables. Inferential statistics involved multiple regression analysis and correlation analysis. Multiple regression was specifically employed to predict and explain the nature and

significance of the relationships and effects between the independent (and moderating) variables and the dependent variable, factoring in the panel structure (e.g., using Fixed or Random Effects models).

Hierarchical multiple regression analysis was used for direct and moderating effects. The model specification was as follows:

$$EM_{it} = \beta_0 + \beta_1 P_{it} + \beta_2 FS_{it} + \epsilon_{it} \dots \text{Model 1}$$

$$EM_{it} = \beta_0 + C + \beta_3 AI_{it} + \epsilon_{it} \dots \text{Model 2}$$

$$EM_{it} = \beta_0 + C + \beta_3 AI_{it} + \beta_4 OC_{it} + \epsilon_{it} \dots \text{Model 3}$$

$$EM_{it} = \beta_0 + C + \beta_3 AI_{it} + \beta_4 OC_{it} + \beta_5 AI * OC_{it} + \epsilon_{it} \dots \text{Model 4}$$

Where:

EM=Earnings management

β_0 = constant

$\beta_1 \dots \beta_5$ = Regression coefficients

P = Profitability

FS= Firm size

C= Control variables

AI_{it}= Audit committee Independence

OC_{it}= Ownership Concentration

ϵ_{it} = error term

it =Period

The research hypotheses were tested at a significance level of 0.05 where a resulting p-value of less than 0.05 was sufficient evidence to reject the null hypothesis meaning the effect was statistically significant and a p-value greater than 0.05 means the effect between the study variables was insignificant.

Results

The descriptive statistics for the main variables utilized in the study are shown in Table 2. These include the observations (Obs), mean values, standard deviations (Std. Dev.), minimum (Min), and maximum (Max) values for each variable. Before performing additional statistical analysis, these statistics provide a basic knowledge of the dataset by illuminating the central tendency, variability, and range of each variable. The study results reveal that with values ranging from -0.5693 to 0.9067, the

variable EM has a mean of -0.0128 and a standard deviation of 0.2605. The sample firms generally engage in modest earnings management, as indicated by the means close to zero. The standard deviation and wide range, however, show significant variation across companies, suggesting that some firms actively manipulate earnings in a positive or negative way. Profitability has a mean of 8.641 with a relatively low standard deviation of 1.0642. The values range from 6.0465 to 11.1709. This suggests that most firms are fairly profitable with little dispersion in performance. The consistent profitability levels may reflect stable financial operations across the firms studied. The mean firm size is 10.0635 with a standard deviation of 0.9361, and values range from 8.2984 to 12.4257. This indicates moderate variation in firm size across the sample, measured by the logarithm of total assets. The limited spread suggests the sample includes firms of relatively comparable size. AI shows a mean of 0.7932 and a standard deviation of 0.1987, with a range between 0.2 and 1. This variable represents the proportion of independent members in the audit committee. The high mean suggests that most firms maintain a largely independent audit committee, in line with good corporate governance practices. OC displays a mean of 9.6258 and a standard deviation of 1.8165, with a range from 0 to

12.2426. This variable represents the proportion of shares held by the largest shareholders. The moderate to high mean

indicates that ownership is relatively concentrated, which can impact decision-making power and governance efficiency.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
EM	240	-.0128001	.2604985	-.5692835	.9066523
P	240	8.640997	1.064167	6.046495	11.17089
FS	240	10.06349	.9360524	8.298351	12.4257
AI	240	.7931944	.1987349	.2	1
OC	240	9.625835	1.816531	0	12.24262

EM: Earnings Management, P: Profitability, FS: Firm Size, AI: Audit Committee Independence, OC: Ownership Concentration.

Source (Research Data, 2025)

Table 3 presents the correlation matrix showing the pairwise Pearson correlation coefficients among the study variables, including the dependent variable Earnings Management (EM) and four independent variables: Profitability

(P), Firm Size (FS), Audit Committee Independence (AI) and Ownership Concentration (OC). The values range from -1 to +1, indicating the strength and direction of the linear relationship between pairs of variables.

Table 3: Correlation Matrix

	EM	P	FS	AI	OC
EM	1.0000				
P	0.7220	1.0000			
FS	0.6189	0.8512	1.0000		
AI	0.5925	0.4587	0.4283	1.0000	
OC	0.3593	0.5036	0.5759	0.2514	1.000

EM: Earnings Management, P: Profitability, FS: Firm Size, AI: Audit Committee Independence, OC: Ownership Concentration.

Source (Research Data, 2025)

There is a strong positive correlation between Earnings Management and Profitability ($r = 0.7220$). This suggests that as firm profitability increases, earnings management tends to increase as well. This may imply that more profitable firms are more inclined to manipulate earnings, possibly to meet or beat market expectations or to smooth reported income over time. EM and Firm Size are positively correlated ($r = 0.6189$). This indicates that larger firms are more likely to engage in earnings management.

Larger firms may have more complex financial systems, greater flexibility in accounting practices, or stronger incentives to manage earnings for capital market purposes. The correlation between EM and AI is also positive ($r = 0.5925$), suggesting that increased audit committee independence is associated with higher levels of earnings management. While this is counterintuitive since independent audit committees are expected to reduce manipulation, it could suggest that independence alone is not sufficient to

curb earnings management, possibly due to a lack of expertise or oversight effectiveness. Finally, there is a moderate positive correlation between EM and OC ($r = 0.3593$). This implies that firms with higher ownership concentration tend to engage more in earnings management. This could be due to dominant shareholders influencing financial reporting for personal benefit or private gain, reducing the effectiveness of broader governance mechanisms.

From Model 4, the coefficient of Audit Committee Independence (AI) is 0.082 with a p-value of 0.000, which is less than 0.05. This indicates that AI has a statistically significant positive effect on earnings management. Therefore, we reject the null hypothesis (H_{01}) and conclude that audit committee independence significantly influences earnings management in firms listed at the NSE.

Table 4: Model summary

Variable	MODEL 1		MODEL 2		MODEL 3		MODEL 4	
	Coef.	P-value	Coef.	P-value	Coef.	P-value	Coef.	P-value
P	0.844	0.000	0.366	0.000	0.368	0.000	0.342	0.000
FS	0.252	0.000	0.084	0.111	0.084	0.113	-0.711	0.000
AI			0.003	0.753	0.003	0.753	0.082	0.000
OC					-0.003	0.839	0.244	0.000
AI*OC							0.505	0.000
Cons.	-0.030	0.013	0.000	0.979	0.000	0.976	0.057	0.000
R-sq:								
within	0.411		0.737		0.737		0.830	
between	0.890		0.777		0.777		0.864	
overall	0.670		0.764		0.764		0.856	
Prob>F	0.000		0.000		0.000		0.000	

*P: Profitability, FS: Firm size, AI: Audit committee independence, OC: Ownership concentration, AI*OC: interaction.*

Source (Research Data, 2025)

These findings are in line with some previous studies while contrasting with others. For instance, (Jerubet, Chepng'eno et al. 2017) conducted research on the characteristics of AC and the quality of financial reporting in listed firms in Kenya. Their findings showed a notable negative correlation between AC independence and the quality of Financial Reporting (FRQ), suggesting that increased independence might be associated with lower financial reporting quality, which contrasts with the current finding of a positive effect on earnings management. (Akhor and Oseghale 2017) argued that independent AC has a positive significant influence on EM, which is consistent with the present result. Similarly, the study by (Mollik, Mir et al. 2020) on the Effects of audit quality and audit committee characteristics on earnings management during the global financial crisis evidence from Australia found that audit committee independence had a significant mitigating effect on firms' earnings management, supporting the role of independence in influencing EM. However, in the UK, audit committee independence was not associated with the quality of intellectual capital disclosure according to the findings of (Li, Mangena et al. 2012), highlighting that the effect of AC independence may vary depending on the context and the outcome variable considered.

The interaction term $AI*OC$ has a coefficient of 0.505 with a p-value of 0.000, indicating a statistically significant moderating effect. The positive coefficient means ownership concentration strengthens the positive relationship between audit committee independence and earnings management. Therefore, we reject H_{02} . These findings are partially inconsistent with the general view that ownership concentration curbs earnings management by enhancing monitoring and aligning interests between owners

and managers. While large shareholders often reduce managers' opportunities to manipulate earnings, the present result is consistent with the argument that extremely high ownership concentration can lead to entrenchment, where controlling owners may engage in earnings management for personal gain. This outcome aligns with the perspective noted in (Usman and Yero 2012), who examined ownership concentration and earnings management practices of Nigerian listed conglomerates and acknowledged that the effect of ownership concentration can vary depending on the governance environment.

Discussion

Audit Committee Independence (AI) has a positive and statistically significant effect on earnings management. This suggests that firms with more independent audit committees tend to exhibit higher levels of earnings management in the NSE context. These findings differ from (Ben and Legendre 2017), who reported that a fully independent AC is associated with lower firm performance in French companies, implying that excessive independence may not always produce desirable outcomes. (Kusnadi et al. 2016) similarly questioned the necessity of complete independence, finding no significant improvement in financial reporting quality when independence increased beyond a majority. In contrast, the current results align with (Waweru & Riro 2013), who identified ownership structure and board independence as key corporate governance factors influencing EM in Kenya. Some studies, such as (Abdul & Haneem, 2006), found no significant link between AC independence and EM in Malaysia, showing that the relationship may be context-specific and shaped by institutional and regulatory environments.

The interaction term AI*OC has a positive and significant effect on earnings management, indicating a statistically significant moderating effect. The positive coefficient shows that ownership concentration strengthens the positive relationship between audit committee independence and earnings management. These findings contrast with the cited study's conclusion that managerial ownership concentration has an insignificant effect on earnings management. While prior evidence suggests that the majority shareholders can reduce manipulation if they possess the necessary skills, knowledge, and experience, the results indicate that, in this context, concentrated ownership may actually amplify earnings management when interacting with audit committee independence. This supports (Al Lawati and Sanad 2023), who highlight that ownership concentration introduces potential conflicts of interest, as controlling shareholders' objectives may diverge from those of minority shareholders. It also underscores the earlier point that without robust internal controls, concentrated ownership can undermine governance mechanisms, even when audit committees appear.

Conclusions and Recommendations

Audit committee independence has a significant positive effect on earnings management, meaning that higher audit committee independence is associated with increased manipulation of earnings. This challenges the traditional expectation that independence curbs earnings management and suggests that in some contexts, independent members may align with dominant shareholder interests rather than acting as strict monitors. Ownership concentration strengthens the positive link between audit committee

independence and earnings management. This suggests that when controlling shareholders hold significant power, independent committee members may not act as effective checks, potentially supporting earnings manipulation aligned with the dominant owners' interests.

The findings of this study have important theoretical implications in relation to agency theory and the fraud triangle theory. From an agency theory perspective, the results reaffirm the central issue of conflicts between managers (agents) and shareholders (principals). The positive relationship between audit committee independence and earnings management in some cases suggests that independence alone does not eliminate agency problems. Instead, governance effectiveness depends on active monitoring, expertise, and the absence of undue influence from controlling shareholders. In relation to the fraud triangle theory, the study illustrates how governance mechanisms can influence the three conditions that lead to fraudulent reporting: pressure, opportunity, and rationalization.

The study recommends that the same study be done focusing on other securities exchanges. The study used only one independent variable for audit committee characteristics, therefore, the study recommends other researchers to use other attributes; audit committee financial expertise, audit committee meeting frequency, and audit committee gender diversity on earnings management. The current study controlled for profitability and firm size but other studies can focus on controlling for firm industry, firm age, and financing structure in relation to the same study. The study also, used ownership concentration as a moderating variable, but we recommend that other studies can use CEO entrenchment as a moderating variable because it can also enhance or

reduce the relationship between audit committee characteristics and earnings management. Finally, the study found contradicting results in relation to audit committee independence showing that it increases earning management, therefore, the study recommends that the same study be carried out in a different context and also changing the statistical powers.

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