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THE IMPORTANCE OF CONSERVATISM IN IMPROVING EARNINGS QUALITY IN ASEAN

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Abstrak – Pentingnya Perilaku Konservatisme dalam Meningkatkan Kualitas Laba di ASEAN
Tujuan Utama – Studi ini dilakukan untuk mempelajari efek *corporate governance,* konservatisme akuntansi, serta budaya nasional terhadap kualitas laba akuntansi.
Metode – Studi ini menggunakan analisis regresi linier berganda sebagai metode. Adapun sampel penelitian adalah laporan keuangan bank di lima negara ASEAN selama tahun 2018 sampai 2019.
Temuan Utama – Studi ini mengungkapkan bahwa perilaku konservatisme akan memicu manajemen berperilaku opportunistik melalui manajemen laba. Tindakan ini akan menurunkan kualitas laba. Sebaliknya, *corporate governance* dan budaya nasional bukan faktor penyebab pemicu kualitas laba akuntansi.
Implikasi Teori dan Kebijakan – Meningkatnya perilaku konservatif dalam penyusunan laporan keuangan akan menurunkan kualitas laba karena laba yang dilaporkan cenderung *understated*. Perusahaan diharapkan dapat mempertimbangkan perilaku konservatif dalam penyusunan laporan keuangan.
Kebaruan Penelitian – Studi ini memberikan gambaran determinan kualitas laba bank di lingkup regional ASEAN.

Abstract – The Importance of Conservatism in Improving Earnings Quality in ASEAN
***Main Purpose** – This study was conducted to study the effects of corporate governance, accounting conservatism, and national culture on the quality of accounting earnings.*
***Method** – This study used multiple linear regression analysis as the method. The research sample was banks' financial reports in five ASEAN countries from 2018 to 2019.*
***Main Findings** – This study revealed that conservatism behavior would trigger management to behave opportunistically through earnings management. This action will reduce the quality of earnings. On the other hand, corporate governance and national culture are not causative factors that trigger the quality of accounting earnings.*
***Theory and Practical Implications** – Increasing conservative behavior in preparing financial statements will reduce the quality of earnings because reported earnings tend to be understated. Companies are expected to consider conservative behavior in preparing financial reports.*
***Novelty** – This study provides an overview of the determinants of the quality of bank earnings in the ASEAN region.*

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Earnings are one of a prevalent issue in accounting because, as business entities, companies are created to generate profit and their achievement in earning profit is a measure of the company performance. Financial statements represent accounting earnings that provide helpful advice in anticipating future cash flows and are often used by investor to evaluate firm performance (Zadeh et al., 2022). Nonetheless, increasing profits simultaneously enables management to manipulate results to their benefit, which may decrease earnings quality. There are significant disputes over how to define, quantify, and investigate the aspects that might impact earnings quality (Dichev et al., 2013). Stated that to Khushboo & Singh (2021), the absolute value of discretionary accrual is one of earnings quality measurements, meanwhile management might use this discretion to indicate their private information or opportunistically manipulate earnings. The development of accruals, which are components of profits not represented in current cash flows, is subject to considerable managerial discretion (Lyu et al., 2017). Those behaviors will make profits less informative (Yamen et al., 2022), give financial reports some biases and reduce earnings quality (Lobanova et al., 2019; Lourenço et al., 2020). This practice is known as earnings management (Han et al., 2010; Hashim et al., 2019); hence, a decrease in earnings quality will be caused by excessive earning management or discretionary accrual.

Discretionary accrual as a measurement for earnings management and earnings quality is closely related to agency theory. Information asymmetry and conflicts of interest involving the agent and the principles result from managers' ability to misrepresent earnings to cover bad performance, which have an impact on opportunistic behavior such as earnings discretion (Sousa & Galdi, 2016). According to agency theory, systematically applied internal and external corporate governance procedures successfully minimize the earnings management behavior of firms in high agency cost countries (Putra et al., 2018). Accounting conservatism may minimize earnings management and maximize earnings quality by providing greater level of verification to recognize losses than profits (Elzahaby, 2021; Hashim et al., 2019; Purwaningsih et al., 2020) Accounting conservatism can reduce the agency cost by mitigating information asymmetry (Zhang et al., 2019). Gray (1988) is the first person to conclude that a country's culture shapes its accounting values; accounting decisions like how to handle earnings likely to be affected by a country's culture. Because values that are important to one community may not be as important to another society, cultural context also has an impact on the connection between principal and agent in agency cost theory.

Research findings on the characteristics that influence the quality of wages have been diverse, conflicting, and sometimes contradictory. Prior studies have focused on how corporate governance affects the quality of earnings (see Suyono & Farooque 2018; Zarei et al., 2022). This study includes some variables like managerial ownership and independent commissioner which are a measurement for corporate governance. Governance systems are one of proposed solution for the earnings management issue which can be identified through ownership structures, the rights of stakeholders, the dedication of the board, audits, financial disclosure, and accountability (Thesing & Velte, 2021). Accounting conservatism which may minimize earnings management and maximize earnings quality by providing greater level of verification to recognize losses than profits has previously been investigated by Elzahaby (2021), Hashim et al. (2019), and Purwaningsih et al. (2020). Extensive empirical data suggests that financial reporting has a conservative tendency: predicted losses should be recorded before expected profits, resulting in an understatement of net assets' value. In addition to corporate governance and conservatism, this study employs that country culture does have an effect on accounting methods (Viana et al., 2022).

In a number of aspects, this study is novelty. To determine the link between corporate governance, accounting conservatism, and national culture, this study compares five banks across five ASEAN nations. El-Helaly et al. (2020) state that several earlier research looked at cultural factors and discretionary of earnings but left out the financial company. Second, since the countries in Southeast Asia have some identical characteristics in cultures as a whole but far different in some dimensions, according to Hofstede (2011). It is interesting to find out if those differences influence the earnings quality of banking industries in each country or not. Since banking sectors are highly regulated and have been limited to some strict rules, this research attempts to discover the monitoring systems from institutional factors (managerial ownerships) and external factors (independent commissioners). Finally, by expanding previous research on the effects of some different perspectives (accounting, monitoring, and cultural factors) that might affect discretionary accruals as measurement tools for earnings quality, this investigation adds to the existing body of knowledge, particularly on variables that could influence earnings quality in banking sectors.

This research aims to investigate and analyze the variables leading to earnings quality by expanding previous research with different perspectives (accounting, monitoring and cultural factors). This research can strengthen the quality of earnings literature, particularly by presenting

empirical evidence to support the basic theory of agency. According to agency theory, information asymmetry and inconsistencies between the principal's and agent's interests are the root causes of discretionary accrual. By implementing corporate conduct, accounting conservatism, and cultural variables, this conflict can be reduced.

METHOD

This research examined the stock exchange-listed bank industry in five ASEAN countries (Indonesia, Malaysia, Singapore, the Philippines, and Thailand) from 2018 to 2019. In 1967, these five nations became the founders of ASEAN. Acaranupong (2021) and Januarsi & Yeh (2022) argue that the ASEAN Five are nations that publish capital account data transparently (Fairly Open Capital Accounts) and countries with very honest and transparent financial circumstances.

Non-probability sampling with a purposive sample was employed as the sampling methodology. The selection of samples based on predetermined criteria is known as purposive sampling. The criteria for this study included banks that had been continually listed on each country's stock market from 2018 to 2019 or had not been delisted. The financial reporting period was every December 31.

Figure 1 shows the conceptual design for this study. Based on Figure 1, the equation of this study is:

$$DACC = \alpha + \beta^{1}OWN + \beta^{2}COM + \beta^{3}CONACC + \beta^{4}PD + \beta^{5}IND + \beta^{6}MAS + \beta^{7}UA + \beta^{8}LOGTA + \beta^{9}GROWTH + \beta^{10}ROA + \varepsilon \quad (i)$$

Based on Figure 1 and the equation, the independent variable is earnings quality. This variable is assessed using discretionary accrual (DACC) derived from Alam et al. (2020) and Mamun et al. (2021)' s model.

Two independent variables that illustrate sound company governance are managerial ownership (OWN) and independent commissioners (COM). This study uses managerial ownership as a variable to represent a governance mechanism since a bigger proportion suggests that the conflict between shareholders and management may be lessened, allowing corporate governance to successfully limit agency conflict. The portion of a company's stock that is held by its executives is known as its management ownership (Indriani & Amalia, 2019). One may determine managerial ownership by calculating the amount of stock held by management by the firm's stock (Shan et al., 2021). Faller & Knyphausen-Aufseß (2018) explain that managerial ownership is relevant in the corporate governance literature due to the perception that it acts to reduce the dispute between management and stockholders. The two effects of management ownership and agency expenses are frequently discussed in current financial research (Li, 2019).

Independent commissioners are those who are not employed by the entity's management. This study employs independent ownership as a variable to represent a governance mechanism because it reflects the autonomy to supervise management acts because they are fully independent and have no conflict of interest with the company, effectively reducing agency conflict and increasing accountability and transparency. Using the ratio of the company's independent commissioners to its overall number of commissioners, independent commissioners are calculated. Agency theory states that because independent commissioners are completely committed to examining management's performance and behavior, management believes them to be more aware of agency concerns (Indriani & Amalia, 2019; Makhaiel, 2019).

Accounting conservatism (CONACC) is traditionally described as expect no profit but all losses (Watts, 2003). Moreover, accounting conservatism enables the identification of financial events in a manner that decreases revenue or raises expenses when the economic repercussions of such events are uncertain (Abdel-Meguid

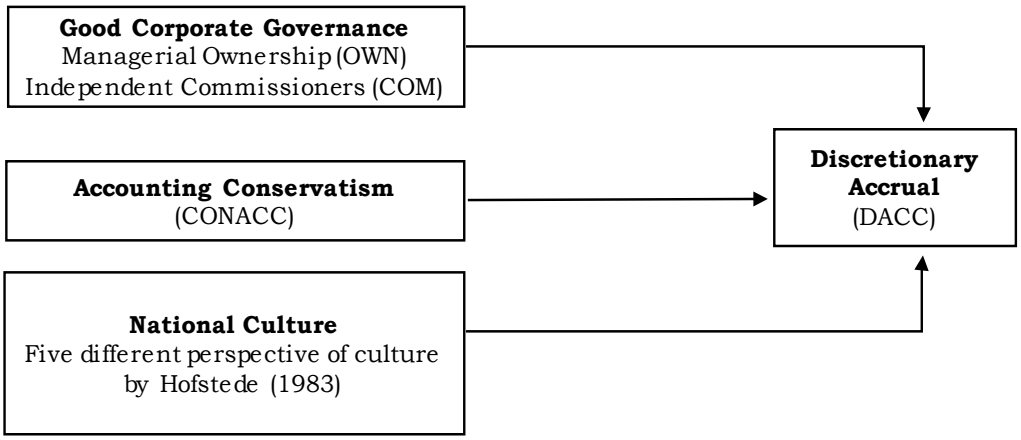

Figure 1. Conceptual Design

Table 1. National Culture Score

Country	Power Distance (PD)	Individualism (IND)	Masculinity (MAS)	Uncertainty Avoidance (UA)
Indonesia	78	14	46	48
Malaysia	100	26	50	36
Singapore	74	20	48	8
The Philippines	94	32	64	44
Thailand	64	20	34	64

Source: Hofstede (2011)

et al., 2019). Additionally, Wijayana & Gray (2019) argue that periods of negative accruals usually follow periods of net income exceeding operating cash flows and vice versa. This is how accounting conservatism is determined using accrual-based accounting. When most businesses have long-term negative accruals, this is a symptom of conservatism, thus, net earnings excluded depreciation and amortization reduced by operating cash flow is the definition of accounting conservatism.

The study will also incorporate national culture (PD, IND, MAS, and UA) as an independent variable. National culture has been used to describe a wide variety of individual behaviors or systemic variances among nations in many academic subjects (Han et al., 2010). In keeping with previous research, we use four cultural dimensions created by Hofstede (1983). This study disregards Hofstede's two cultural aspects (long-term orientation and indulgence). Basically, Hofstede developed just four dimensions, and the four major issues areas outlined by Islam et al. (2022) and experimentally validated by IBM data constitute characteristics of national culture. Hofstede's four dimensions served as the foundation for cultural dimensions. Furthermore, the indulgence factor has a restraint in Asia and the Muslim world, thus we ignore the two cultural dimensions while conducting this research in ASEAN nations.

Power distance (PD), the first dimension, measures how well community members can accept distinctions in rank and power (Halabi et al., 2019; Paredes & Wheatley, 2017). In national cultures that tolerate only a small degree of power distance, norm and values suggest that power distance should be minimal. The second dimension is individualism-collectivism (IND) which describes the tendency of a culture's rules and values to prioritize individual or group needs; individualism promotes the achievement of individual objectives, needs, and success while collectivism enhances social welfare and satisfaction. In addition, another dimension of national culture is masculinity–femininity (MAS). Masculinity indicates to what extent a culture values aggressiveness, power, and independence meanwhile femininity denotes a culture's tendency to emphasize such qualities as interdependence, compassion and emotional availability. Moreover, the last dimension is uncertainty avoidance (UA), which relates to how individuals feel comfortable with ambiguity and the inability to accurately predict the future. The form of this national variable definition is reflected in Table 1. Table 1 provides different assessment indicators for each country.

Return on asset (ROA), firm size (LOGTA), and company growth (GROWTH) serve as the control variables to ensure that the outcome was not skewed. Consequently, factors outside the study do not impact how dependent and independent variables are correlated. To determine the size of a firm, the natural logarithm of its total assets is employed, meanwhile comparing net earnings to total assets is used to determine return on assets. Sales growth is counted by comparing the total sales amount from periods t and t-1.

Multiple linear regression was employed in this study to evaluate the data because it is clear and understandable, produces insightful findings, and is straightforward to implement. Regression analysis may be used to determine the effect of predictor variables on the outcome variables. This approach can forecast future values and execute parallel calculations, hence shortening the analysis time. We conducted this object with five ASEAN countries because according to Klyuev & Dao (2016), they are countries that have openness in displaying capital account data (fairly open capital accounts), quite honest and open in its monetary conditions.

RESULTS AND DISCUSSION

To examine the relationship between an endogenous variable and an outcome variable, regression coefficient testing was used. Regression coefficient evaluation involved examining the probability value before and after the control variable was included in the equation to determine the influence of the control variable on the model.

Table 2 shows the regression test result. According to Table 2, the equation model is:

$$DACC = 0{,}201 + 0{,}011OWN + 0{,}024COM + 0{,}027CONACC - 0{,}001PD - 0{,}001IND + 0{,}001MAS + 0{,}001UA - 0{,}027LOGTA + 0{,}001GROWTH - 0{,}401ROA + \varepsilon \quad \text{(i)}$$

Table 2. The Regression Test Result

Initial Variables	Without Control Variables	With Control Variable
Constant	-0,060	0,201
OWN	0,012	0,011
	(-0,489)	(-0,914)
COM	0,048	0,024
	(-0,166)	(-0,932)
CONACC	0,001	0,027
	(-0,353)	(10,580)***
PD	-0,001	-0,001
	(-0,378)	(-1,565)
IND	-0,002	0,001
	(0,017)**	(-0,555)
MAS	0,002	0,001
	(0,005)***	(-1,473)
UA	0,001	0,001
	(-0,196)	(-1,366)
LOGTA		-0,027
		(-10,614)***
GROWTH		0,001
		(-0,244)
ROA		-0,401
		(-2,567)***
R-Squared	0,113	0,529

It can be shown from Table 2 and the equation that each independent variable influenced discretionary accrual in a distinct way. The negative coefficient means that they will decrease the discretionary accrual and vice versa. Corporate governance, accounting conservatism, masculinity, uncertainty avoidance and company growth positively impacted discretionary accrual. Nevertheless, the other variables like power distance, individualism, company size and return on asset showed negative impact on discretionary accrual.

The effect of managerial ownerships to earnings quality. According to Table 2, management ownerships did not significantly affect the quality of earnings. The proportion of ownerships owned by manager failed to explain any significants influence on earnings quality. Similar to investors, management shareholders had an emphasis on short-term profits rather than the quality of earnings as their primary goal while making investments. Managerial ownership cannot be used to adopt corporate governance rules that lessen the conflict of interests between management and shareholders (Cheng et al., 2022). This outcome aligns with earlier study by Huynh (2019) and Tessema et al. (2018).

Management did not maximize its performance. In other words, the management continued to behave in its own interests and for its own gain, rather than in the principal's. In Indonesia, some business had a low percentage of management ownership as a result of the employee stock ownership program (ESOP). Additionally, management ownerships were 14% on average throughout ASEAN nations, and it had been scientifically demonstrated that managerial ownerships had little impact on the standard of earnings.

Furthermore, this study showed that whether low or high, the percentage of managerial ownership could not explain the earning quality in five ASEAN countries. It may be inferred from this research that management ownerships did not reduce or increase the discretionary accrual, which means that it did not reduce and increase opportunistic behavior. Consequently, management ownership did not increase firm control, minimizes business risks, and did not ensure the resolution of conflicts of interest in the company, thus it cannot boost earnings quality. The management, which served as both agent and principal, was also unable to strike a balance between the interests of the company. The board and commissioners, who did not have share ownership rights, as well as management, who was also a shareholder, will continue to seek the greatest possible profits for themselves. Managerial ownerships do not

guarantee the supervision and control of fraud in financial reporting (Hidayah & Rahmawati, 2019).

This finding, however, conflicted with other studies that found managerial ownerships might raise profits quality (see Suyono & Farooque, 2018; Zarei et al., 2022). Due to the existence of managerial ownerships, shareholders and management will share the same perspective on how to strengthen company's performance and generate the quality of earnings. Accounting accrual adjustments are significantly impacted by managerial interest, increasing the earnings' quality and capacity to explain earnings return.

The results of two further studies that are in conflict with this one in various ways (Saona et al., 2020; Yamen et al., 2022). Previous findings by Suyono & Farooque (2018) and Zarei et al. (2022) explain the positive relationship between management ownership and profits quality, while Brahem et al. (2022) and Dong et al. (2020) resume the opposite, at increasing degrees of management ownerships, the centralization phenomenon sets in, and high managerial shows that managing earnings is significantly impacted by managerial interest. In addition, Abernethy et al. (2017) on their research found that expanding managerial ownerships in a firm might lessen opportunistic or selfish behavior.

The effect of independent commissioners to earnings quality. According to Table 2, independent commissioners did not significantly affect the quality of earnings. It is anticipated that a section of independent commissioners would reduce the practice of discretionary accruals, improving the company's profits quality. However, the outcome of the hypothesis test revealed the opposite.

According to the findings, independent commissioners' ability to regulate discretionary accruals and raise the standard of a company's earnings was insufficient. This outcome is in line with some earlier research by Cheng et al. (2022) and Zuo (2016). The size of independent commissioners not the primary factors in controlling management activities but norms, values and trust are factors that can improve the control mechanism in organizations. They guarantee that the business strategy is implemented, monitor the administration of the firm, and demand responsibility, independent commissioners as one of the corporate governance systems are expected to lower the financial statement fraud.

In contrast, some researchers found that independent commissioner can effectively contribute to reducing discretionary accrual, thus increasing earnings quality (Lourenço et al., 2020; Saleh et al., 2020). The board of commissioners is crucial in setting strategy, controlling how the business is operated, and ensuring that managers genuinely enhance the performance of the business to maximize profits. Having independent audit committees as a part of independent commissioner enhances earnings quality by decreasing total discretionary accrual to enhance earnings quality. Earnings quality and the process of reporting should be improved since supervisory board and independent board as a part of independent commissioners are less vulnerable to possible conflicts of interest that would make it difficult for them to oversee.

Through their monitoring responsibilities, the supervisory board and audit committee, which makes up an important component of an independent commissioner, should be able to stop opportunistic management decisions that are contrary to the shareholders' advantage. Moreover, this study shows independent commissioners' ratio has no substantial impact on the amount of discretionary accrual and hence has no effect on profits quality. According to ASEAN Corporate Governance Scorecard, there is a mandatory rule for the independent commissioner's proportion for every country in ASEAN. On average, the bank listed in five ASEAN countries in this study fulfilled that requirement. While the control of the company's owners and majority shareholders continued to be extremely strong, the appointment of independent commissioners was merely to comply with regulations or formalities and was not intended to enforce GCG practices within the company. As a result, the supervisory function of the board of commissioners was ineffective.

The effect of accounting conservatism to earnings quality. Table 2 shows that accounting conservatism affected discretionary accruals. Eventually, the company's accounting practices became more conservative, leading to a rise in discretionary accruals and a decline in earnings quality. The practice of conservatism revealed that the company's conservatism in accounting profit would likely understate its earnings. Conservatism contributes a bias to financial reporting . On the other hand, it can be welfare-enhancing (Elzahaby, 2021).

This result supports previous research by Lewellyn & Rosey (2017) and Zadeh et al. (2022). While employing several conservative accounting strategies to prevent management from overstating results, more conservative organizations are more likely to disclose lower-quality earnings. Furthermore, conservatism motivates theories to falsify financial records since it enables the directors to interfere more heavily in the company's investment decision-making. The management is more motivated to change the system when conservatism is higher. The concept of conservatism pertains to financial reporting caution, whereby the company immediately acknowledges possible debts and losses while delaying the recognition of assets and income. Companies with greater levels of conservatism have a tendency to underreport results, it might be interpreted as opportunistic behavior and breeds distrust among those who use financial statements.

However, Elzahaby (2021) and Hashim et al. (2019) conclude that accounting conservatism will decrease the earnings management, thus it will

increase the earning quality. The financial statements' earnings will lean toward stability due to this accounting conservatism, as opposed to earnings management, which typically reports higher visible results. This practice—known as the prudent concept of not overstating profitability in financial reports—reduces managers' incentive and capacity to falsify financial accounts. Managers are incentivized to inflate stated earnings to depict them more positively, which is more difficult with conservative accounting or even limits earnings, reducing the efficiency of earnings management.

While some researchers argue that accounting conservatism would restrict managers' ability to claim significant profits, this study reached the opposite conclusion. Accounting conservatism lowers the quality of earnings while increasing the opportunistic behavior of a company's manager through earnings management. Conservatism is a strategy management uses to manipulate results, deceive users of financial accounting, and falsify the value of financial information. Moreover, the managers who cannot prevent accounting manipulation are worst in utilize the information to shareholders and reduce the volatility of share price to earnings disclosure, making manipulation less acceptable (Yang & Abeysekera, 2018). Conservatism encourages board interventions, then management manipulates the accounting system to mislead and distort the board's interventions (Lewellyn & Rosey, 2017).

The effect of national culture (power distance) to earnings quality. Table 2 shows the regression test result relating to the impact between national culture (power distance) and discretionary accrual. Power distance had been empirically shown to have no significant impact on discretionary accrual and as a result, it cannot both improve and lower the quality of earnings ((Han et al., 2010; Hutagaol-Martowidjojo & Widyanto, 2018; Kleinman et al., 2019). Power distance is a degree to which individuals tolerate an unbalanced power distribution within institutions (Hofstede, 1983). In organizations with a large power distance, individuals are more tolerant of hierarchical institutions. However, people in communities with a small power distance work for power equality and look for reasons for power imbalances. This study find that power distance cannot explain discretionary accrual whether the companies reflect high or low level of power distance culture. One possible reason is that the sample did not contain sufficient variation of culture that can give a strong statistic result for significant finding. In addition, the five ASEAN countries had identical power distance scores since their cultural histories were similar. The quality of accounting earnings showed the qualitative aspects of financial statement-based income. The majority of the earnings quality was determined by financial factors and accounting treatment, not by hierarchy or authority in the organization, as reflected by power distance culture.

Nonetheless, other studies show the opposite result, for instance Lyu et al. (2017) and Purba & Umboh (2021). They find that CEOs who wish to represent themselves as kingdom builders are tremendously motivated to manage profitability. Earning management should thus be more common in nations with widening power gaps than in those with narrowing power distance (Hutagaol-Martowidjojo & Widyanto, 2018). In other words, companies with a big power distance will have low profit quality. Lestari & Naimah (2020) reach the same conclusion that the degree of discretionary accruals declines in businesses where the CEO and chairman are separated. This finding suggests that a reduction in power distance may enhance how well financial reporting is done by lowering the behavior in managing earning (Ugrin et al., 2017).

Several studies have indicated that companies with a large power distance will encourage opportunistic behavior by raising discretionary accruals, meanwhile, this research demonstrates the exact reverse. The high power and authority are not proven influence the earning discretion as well as in organization with low power and authority. In the accounting conceptual framework, some fundamental qualitative criteria such as objectivity, neutrality, reliability, and representation faithfulness indicate that financial statements adhere to these standards. It means that accounting information was used for users' general purposes and was independent of the requirements and intents of particular parties (power or authority). In light of this, the power distance culture did not affect how accurately financial reporting was done because an accountant should rely on accounting concepts rather than on persons.

The effect of national culture (individualism) to earnings quality. Table 2 shows that earnings quality is not significantly affected by individualism culture. Individualism, which was widely recognized as the prevailing culture, cannot affect discretionary accrual, therefore, it can either raise or diminish the quality of profits. This study supports earlier research by Paredes & Wheatley (2017) that examined the impact of Hofstede's cultural component on earning management in European nations that use IFRS to publish their financial accounts. The findings indicate that, among the four cultural dimensions (UA, PD, MAS, and IND), only power distance significantly affects earnings management. Therefore, individualism has no impact on both the management and quality of earnings. It can be implied from the result that culture continues to influence earnings quality which is reflected by earnings management, although its influence is decreasing as a result of IFRS implementation. Comparing individualism to collectivism, which better reflects the requirements of society, individualism refers to those communities that are solely intended to care for themselves and their families. This finding suggests that quantitative parameters, rather than

people's behavioural traits, determine the quality of earnings. Additionally, some managers with a high culture of individuality strongly emphasize personal accomplishment, autonomy, and orientation; as a result, the culture of individualism has little bearing on the quality of earnings.

Contrary to this finding, Hutagaol-Martowidjojo & Widyanto (2018), Kleinman et al. (2019), and Ugrin et al. (2017) come to the conclusion that individualism has a major impact on earning management. Altanlar et al. (2019) and Han et al. (2010) observe empirically that more individualism in the country will lead to higher level of discretionary accrual, thus, lower the quality of earnings. Gray (1988) states that, individualistic cultures that value enthusiasm, adaptability, openness, and professionalism are connected to effective earnings management. Extremely individualistic companies tend to act on their own behalf, are more opportunistic, and are likely to produce financial accounts with optimistic numbers.

Individualism and earnings quality, however, were not significantly correlated, according to this study. Earnings was generated by accounting process through financial report and limited to some conceptual frameworks. Financial reports quantified and described economic occurrences. For financial information to be valuable, it must not only accurately describe important phenomena, but also accurately represent the content of the phenomena that it claims to represent. As a result, when an accountant prepares financial statements, they are bound by laws rather than their own needs, and so cultural factors-individualism have no impact on the quality of financial information.

The effect of national culture (masculinity) to earnings quality. Table 2 demonstrates that the masculinity culture has no apparent impact on the quality of the profits. A culture characterized as masculinity is one that stresses ambition, heroism, aggression, and financial accomplishment in contrast to a tendency toward relationships, humility, sympathy for the defenseless, and the quality of life (femininity) (Hutagaol-Martowidjojo & Widyanto, 2018; Paredes & Wheatley, 2017; Ugrin et al., 2017). According to Gray (1988), in the system of accounting values, masculinity appears to be less relevant, not related to flexibility and professionalism. Since the professional or statutory authority for accounting systems and their enforcement is concerned with regulation and the level of enforcement or compliance, it appears that the professionalism and uniformity dimensions of accounting values are most essential to them. Meanwhile, flexibility and professionalism in accounting practice and accounting norms are closely related and permit earnings management, therefore masculinity cannot explain the quality of earnings. The earnings quality as a consequence of the accounting process cannot be explained by masculinity culture since producing a high-quality financial statement is based on qualitative characteristics, not gender.

However, depending on the relationship between masculinity and discretionary accrual, other researchers, including El-Helaly et al. (2020), Kleinman et al. (2019), and Viana et al. (2022), discover different results. Companies in industrialized nations with heightened concentrations of masculinity are more likely to be involved in profits management. This situation will lower the quality of earnings. Managers frequently prioritize material achievement and financial performance in a highly patriarchal society (Gray, 1988). Decision-makers will display aggressive characteristics like directness and competitiveness because that is typically where their attention is focused. It will raise the possibility of managing earnings then lowers the quality of the earnings.

While other studies have found a strong correlation between masculinity culture and opportunistic behavior, this study came to the opposite conclusion, concluding that regardless of how masculine a culture is, it has no bearing on the earning management, which is what earnings quality is measured with. The financial report's quantitative data has a greater overall impact on earnings than do institutional variables like gender diversity (masculinity vs femininity culture). Good quality of profits created by financial statements that were organized using a conceptual framework as a primary qualitative trait.

The Effect of national culture (uncertainty avoidance) to earnings quality. According to Table 2, uncertainty avoidance has no discernible impact on discretionary accrual. A community's tolerance for ambiguous situations, unknowable future occurrences, unexpected conduct, and unconventional ideas is measured by how much it avoids uncertainty (Hofstede, 1983). The culture of uncertainty avoidance tends to favor consistent financial reporting standards with plenty of regulations and minimal flexibility for accounting judgments, which encourages discretionary accrual behavior. However, the regression findings revealed that the culture of uncertainty avoidance had no impact on the quality of profitability. This research supports earlier research by Paredes & Wheatley (2017) and Saci et al. (2021). Only two cultural dimensions—individualism and indulgence—who influence earnings quality. Additionally, the impact of cultures unable to explain profit management is waning as a consequence of IFRS' adoption. According to this conclusion, uncertainty avoidance fails to align interests and monitor activities to control managers' opportunistic behavior; as a result, this culture may either boost or diminish profits quality.

On the contrary, Hutagaol-Martowidjojo & Widyanto (2018) and Kleinman et al. (2019) find a positive correlation between uncertainty avoid-

ance and profit management, the high uncertainty avoidance will decrease the earnings quality. This indicates that cultures with strong uncertainty avoidance focus on earnings growth. El-Helaly et al. (2020) and Han et al. (2010) state that uncertainty avoidance will decrease the discretionary accrual, thus increase the earnings quality. Wu & Zhou (2022) explain that low level of uncertainty avoidance in countries, will increase the intensity of discretionary accruals and the efficacy of corporate governance as a constraint to profit management is dependent on organizational culture.

Contrarily, it is discovered that uncertainty avoidance connected with earnings proft (Hutagaol-Martowidjojo & Widyanto, 2018; Kleinman et al., 2019); excessive levels of uncertainty avoidance would lower the quality of the profits. This shows that societies with great uncertainty avoidance put a premium on income growth. El-Helaly et al. (2020) and Han et al. (2010) observed a significant result in the opposite direction; avoiding uncertainty will reduce discretionary accrual and boost profits quality. The intensity of discretionary accruals is higher in nations with poor uncertainty avoidance and how organizational culture affects the effectiveness of CG as a restraint on profit management (Wu & Zhou, 2022).

Notwithstanding what some researchers explain above, this study demonstrated that uncertainty avoidance was not correlated to the discretionary accrual as well as earnings quality. Given that banks were highly regulated industry, the link between culture and profits quality might not have an impact on banking organizations.

The effect of control variables on earnings quality. According to Table 2, this study provided two models, one before and one after control variables were added to the equation. The control variables much better to explain the earnings quality. The firm size was determined by the number of total assets, which was correlated with accrual number, it might influence the effect of accounting conservatism on earnings quality because those two variables were highly correlated with accrual basis. Furthermore, when the model was regressed without the three control variables, individualism had a negative effect on earnings quality, but when the three control variables were included. In addition, identical result happened to masculinity cultural perspective which had positive effect on earnings quality but had no effect on earnings quality after firm size, growth and return on assets were added to the model.

The firm's size has a negative influence on discretionary accruals; as the company's total assets increased, discretionary accruals would decrease or the quality of earnings would improve. This result support previous study by Altanlar et al. (2019), Hidayah & Rahmawati (2019), and Saci et al. (2021). Company size is determined by how many assets it has. To thoroughly complete financial reporting, large corporations frequently exercise cautious management, are skilled at regulating their revenues, and pay greater attention to the public. Large corporations have a tendency to operate prudently to be able to preserve the public's trust in their financial performance, hence they are less inclined to manage their profits. Companies tend to have a high the quality of earnings with declining earnings management. Additionally, big businesses are more transparent and open to participate in less profit management.

Another control variable is company growth which is shown in Table 2 and has an insignificant effect on earnings quality. The firm growth variable has no significant effect on discretionary accruals because there is a requirement that management focuses on producing profit by expanding sales (Moscariello et al., 2020), and not on opportunistic activities through discretionary accruals; hence, sales cannot influence earnings management. Moreover, when a company can perform by raising their actual sales, they do not need to increase their profit in other ways, such as through profits management. They only need to consider how to increase their sales. Increasing their manufacturing and product quality and expanding their advertising are some approaches to enhance their sales. Therefore, their sales will improve together with the quality of their financial statements' earnings. Sales growth is insufficient to account for profits management in relation to political cost. According to the political cost hypothesis, businesses that must bear political costs may cut profits in an effort to do so because regulators and other parties may interpret high profitability as an overly high amount of profit (Mamatzakis & Bagntasarian, 2020). It can trigger high demands against the company, raising suspicions of a monopoly. Hence, companies tend to play safe by not reporting too high growth because it is related to political cost.

According to this study, ROA, one of the control variables, significantly and negatively affected discretionary accruals. The higher ROA correlates with higher-quality profit (Saci et al., 2021; Wu & Zhou, 2022). This suggests that organizations with high levels of corporate success will see a decline in management's opportunistic behavior, such as earnings management initiatives. The fact that the company's performance has been in line with expectations shows that management is not motivated to manage earnings (improved earnings quality). Additionally, Abad et al. (2018) explain that a company is less likely to use income smoothing the more successful it is because the public will be looking at the company's finances more closely. As a result, businesses might want to refrain from taking actions that could damage their reputation. Management no longer needs opportunistic activities when the company's performance is increasing, as shown by the increased contribution of assets to revenue. Maintaining this performance will be their main focus, which will raise the standard of their revenues.

CONCLUSION

According to the research's conclusions, corporate governance was irrelevant to discretionary accruals management decisions, thus failed to explain the effect on earnings quality. Management continued to act in its own self-interest and for its own benefit, rather than in the principal's best interests. Businesses with a higher level of conservatism are more likely to declare lesser income, which creates mistrust among stakeholders and possibly implies earning manipulation. Accounting conservatism will cause earnings in financial statements to tend toward stability and increase earnings quality. This backs up the agency theory, which asserts that information asymmetry creates opportunistic behavior and leads to poor earnings quality. Conservatism in accounting might result in greater knowledge asymmetry and larger discretionary accrual, thus decreasing the earnings quality. Since the manager has more authority and information about the company, they tend to act on behalf of their interest (i.e., accounting conservatism) and ignore the owner's interest. In addition, the banking industry may perform prudently via accounting conservatism, enhancing their assets and profitability due to their present qualifying profits equity.

Moreover, national cultures fail to explain discretionary accruals because banks are highly regulated institutions and are supervised by several authorities, so it is possible that cultural factors do not sufficiently influence earnings quality. The financial report's quantitative data has a greater overall impact on earnings than do institutional variables like gender diversity (masculinity vs femininity culture, intentions of specific parties (power or authority) and other cultural variables. Good quality of profits created by financial statements that were organized using a conceptual framework as a primary qualitative trait. Furthermore, this research contributes to the literature in the ASEAN context by some successful variables in managing earnings quality.

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