

# The mediating role of earning management in enhancing firm value

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## Abstract

This paper analyzes the relationship between financial performance, corporate governance, and firm value, considering earnings management as an intermediary variable in ASEAN technology companies during 2021–2024. Using a quantitative approach, this research employed secondary data obtained from company financial reports with a purposive sampling method. The analysis technique employed was multiple regression and a mediation test using SPSS 27 with the PROCESS Macro (Hayes, 5.0) to identify indirect effects. The empirical results show that profitability has a significant impact on firm value, whereas managerial ownership does not exhibit a significant effect. Furthermore, earnings management mediates the relationship between managerial ownership and firm value but does not significantly mediate the relationship between profitability and firm value. These findings highlight the role of earnings management in strengthening or weakening the effects of financial performance and corporate governance on firm value.

Keywords: Profitability, Management Ownership, Earnings Management, Firm Value.

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## INTRODUCTION

Rapid technological advances have increased business dependence on technology applications, leading to the emergence of technology-based companies around the world (Fonna, 2019). Digitalization has not only expanded opportunities for technology-oriented employment but is also projected to generate around 170 million new jobs (World Economic Forum, 2025). GAFAM (Microsoft, Google, Apple, Meta, and Amazon) represents large technology companies that continue to grow and play a key role in the global creative industry (de Bustos & Izquierdo-Castillo, 2019). The increasing demand for technology encourages companies to continue innovating in order to attract investors, making it one of the factors that contribute to increasing company value (Choi & Yoo, 2022). ASEAN was selected as the research sample because the post-COVID-19 period has driven an accelerated surge in technological development across Indonesia, Malaysia, Singapore, and Thailand, making the region an increasingly relevant context for examining the dynamics of technology-oriented firms.

Company value reflects investor confidence in the long-term prospects and sustainability of the company, which is closely related to the company's financial performance as a measure of its ability to manage resources efficiently and generate profits (Fahmi, 2012). Strong financial performance, such as high profitability, often indicates promising prospects that increase investor confidence and company value (Harahap, 2011). To achieve optimal performance and generate high-quality profits that strengthen company value, effective corporate governance mechanisms are needed to ensure accountability and sound managerial decision-making (Imron et al., 2013). Corporate governance structures, such as managerial ownership and audit committees, play an important role in reducing agency conflicts by aligning managerial and shareholder interests and improving oversight of financial reporting (Fama & Jensen, 1983).

However, agency theory and signaling theory highlight that information asymmetry can encourage managers to engage in earnings management to reduce conflicts of interest or send

optimistic signals to the market (Scott, 2015). Such earnings management practices can reduce the quality of financial information and influence market perceptions of company value (Healy & Wahlen, 1999). Previous studies show that strong governance mechanisms can limit earnings management and increase company value (Nasser, 2008). Concentrated ownership structures can weaken oversight functions, allowing management greater freedom to engage in earnings management for personal gain (Purwaningsih & Fadli, 2022). External factors such as market conditions and financial performance also play a role, as corporate governance without strong financial performance support often has a negligible impact on company value (Manik & Purwanto, 2023). These findings indicate a significant research gap, particularly in understanding how financial performance, corporate governance, and earnings management interact to shape company value.

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **Literature Review**

#### **Agency Theory**

Agency theory explains the relationship between business owners (principals) and those who have the authority to oversee their business operations (agents). Conflicts between the two often arise because managers acting as agents often prioritize their personal interests over the objectives of shareholders (Jensen & Meckling, 2019). This conflict arises due to information asymmetry, as managers have greater access to internal company information and can act opportunistically when disclosing it (Cahyono & Widyawati, 2019).

#### **Signalling Theory**

According to signaling theory, information is conveyed through signals, whereby the sender provides relevant clues that influence the recipient's perceptions and actions (Spence, 1978). This theory explains how companies assist stakeholders in making decisions by sending signals through managerial behavior or financial data in a corporate environment (Choudhury, 2024). These indicators help investors distinguish between high- and low-quality companies by reflecting management's assessment of the company's prospects (Brigham & Houston, 2010). Although not all types of earnings manipulation provide truly positive or legal signals, managers sometimes defend earnings management as a positive signal to attract investors.

### **Hypothesis Development**

#### **The Effect of Profitability on Firm Value**

Financial performance reflects a company's financial stability and its success in achieving business objectives (Kasmir, 2019). Financial performance also serves as an analytical tool to evaluate how effectively a company manages its financial resources in terms of capital structure, liquidity, and profitability (Fahmi, 2012). Empirical studies by Utama & Lisa (2018) and Khasana & Triyonowati (2019) show that profitability significantly affects company value. According to signaling theory, financial performance serves as a medium for management to convey credible signals to investors, reduce information asymmetry, and increase investor confidence, which ultimately increases stock prices and company value (Scott, 2015). Therefore, the following hypothesis is proposed:

H1: Profitability has a positive effect on firm value.

#### **The Effect of Managerial Ownership on Firm Value**

Corporate governance defines the framework for the relationship between shareholders, the board of directors, management, and stakeholders that guides the setting of objectives, implementation, and performance monitoring (OECD, 2015). It serves as a control mechanism to ensure that the company operates in the interests of shareholders and stakeholders (Effendi, 2009). Empirical evidence by Berliani & Riduwan (2017) and Wulanda & Aziza (2019) show that managerial ownership significantly affects firm value. According to signaling theory, managerial performance serves as a signal that

reduces information asymmetry between owners and investors (Brigham & Houston, 2019). Strong corporate governance enhances investor confidence, managerial accountability, and decision-making quality, ultimately improving firm performance and value (Effendi, 2009). Therefore, this study proposes the following hypothesis:

H2: Managerial ownership has a positive effect on firm value.

### **The Effect of Profitability on Earnings Management**

Financial performance is a key indicator of a company's health and success, with profitability and financial stability being of primary concern to investors and creditors (Scott, 2015). Profitability reflects a company's ability to generate profits, where higher profits indicate better performance (Agustia & Suryani, 2018). However, both low and high profitability can encourage earnings management when companies try to meet market expectations (Tanra et al., 2017). High leverage also increases the risk of income manipulation to meet debt obligations (Oktovianti & Agustia, 2012). Empirical evidence from Hidayat & Adityaningsih (2024), Setiowati et al. (2023), and Pratika & Nurhayati (2022) confirms that financial performance significantly affects earnings management. Based on agency theory, conflicts between managers and owners can encourage managers to alter financial reports for favorable market perceptions (Jensen & Meckling, 2019). Therefore, financial performance not only measures corporate success but can also trigger opportunistic earnings management behavior.

H3: Profitability has a positive effect on earnings management.

### **The Effect of Managerial Ownership on Earnings Management**

The implementation of corporate governance promotes professional, transparent, and efficient management while protecting shareholder and stakeholder interests (Komite Nasional Kebijakan Governance, 2006). As a key governance mechanism, managerial ownership reduces earnings management by aligning managerial and ownership interests and enhancing internal control (Nugrahani et al., 2025). Empirical studies by Carolin et al. (2022) and Kusumawardhani & Murdianingrum (2021) confirm that effective governance minimizes earnings manipulation. Earnings management often stems from information asymmetry and divergent interests between managers and owners (Healy & Wahlen, 1999). Based on agency theory, managers may act opportunistically to meet personal goals (Jensen & Meckling, 2019), yet strong governance mechanisms can mitigate such behavior through improved transparency and accountability (Dechow et al., 1995). Therefore, this study proposes the following hypothesis:

H4: Managerial ownership has a negative effect on earnings management.

### **The Effect of Earnings Management on Firm Value**

Earnings management, or the manipulation of financial statements, aims to improve the appearance of company performance to attract investors and creditors (Tandry et al., 2014). This practice can influence firm value, as investors often respond positively to reported financial outcomes (Wahyuningsih & Mukti, 2023). According to signaling theory, financial reporting serves as a communication tool to reduce information asymmetry between internal and external parties (Spence, 1978). Studies by Budiman et al. (2021) and Riswandi & Yuniarti (2020) confirm that earnings management significantly affects firm value. Managers may use this practice to send positive signals about prospects, though it can also distort the firm's true financial condition. Therefore, this study proposes the following hypothesis:

H5: Earnings management has a positive effect on firm value.

### **The Relationship between Profitability and Firm Value through Earnings Management**

Agency theory describes the contractual relationship between shareholders and managers, where differing interests and information asymmetry can create agency conflicts (Jensen & Meckling, 2019).

Managers, having greater access to internal information, may act opportunistically through earnings management to shape investor's perceptions (Healy & Wahlen, 1999). Since financial performance is a key indicator of growth prospects (Scott, 2015), managers may manipulate earnings to present a more favorable image and signal stability to investors (Suprianto & Setiawan, 2018). Consequently, even when financial performance improves naturally, earnings management can further enhance perceived firm value by reinforcing positive market perceptions (Tandry et al., 2014). Therefore, this study proposes the following hypothesis:

H6: The relationship between profitability and firm value can be mediated by earnings management.

### The Relationship between Managerial Ownership and Firm Value through Earnings Management

According to agency theory, conflicts between owners and managers arise when their objectives diverge (Jensen & Meckling, 2019). Corporate governance serves as a monitoring mechanism to ensure managerial actions align with shareholder interests and to mitigate opportunistic behaviors such as earnings management (Gillan & Starks, 2003). Managers with equity stakes tend to align their interests with shareholders, reducing the incentive to manipulate earnings, and promoting more transparent financial reporting (Carolin et al., 2022). This influence often occurs indirectly through earnings management, as strong governance can reduce manipulation (Peasnell et al., 2005). However, managers can still engage in earnings management to send positive signals to investors if they are not driven by opportunistic actions that could reinforce perceptions about the company's prospects. (Suprianto & Setiawan, 2018). Therefore, this study proposes the following hypothesis:

H7: The relationship between management ownership and firm value can be mediated by earnings management.

## METHODS

### Research Category

In this study, a descriptive-quantitative methodology is used. Based on the positivist paradigm, the quantitative approach seeks to investigate a particular population or sample by gathering data with research tools and analyzing the findings statistically to test hypotheses (Sugiyono, 2017). Quantitative research measures the variables involved in a theory to verify it.

### Operational Variable

The dependent variable is firm value (PBV). The independent variables are profitability and managerial ownership. Earnings management acts as the mediating variable, defined as managerial choices of accounting policies to influence reported earnings (Tundjung & Haryanto, 2015), measured using discretionary accruals from the Modified Jones Model.

**Table 1.** Operational Variabel

Variable	Variable measurement Indicator	Scale
Profitability (X1)	Return On Assets = $\frac{\text{Net Profit}}{\text{Assets}}$	Ratio
Managerial Ownership (X2)	$MO = \frac{\text{Shares owned by management}}{\text{Outstanding shares}}$	Ratio
Present Book Value (Y)	$PBV = \frac{HPPS}{\text{Book Value}}$	Ratio
Earnings Management (Z)	discretionary accrual	Ratio

Purposive sampling is the method used in this study, which selects samples according to predefined standards to achieve the study's goals (Sugiyono, 2017). Technology companies listed on ASEAN stock exchanges (Indonesia, Malaysia, Singapore, and Thailand) between 2021 and 2024 make up the sample. A total of 320 technology sector IPO companies is listed across these exchanges. The following describes the sampling criteria that were applied in this investigation.

**Table 2.** Sample Determination process (via Purposive Sampling)

No	Description	Total
1.	Technology companies listed on the ASEAN Stock Exchange (IDX, SGX, Bursa Malaysia, SET)	303
2.	Companies that have not gone public in 2021	(68)
3.	Companies with financial reporting not as of December 31	(86)
	Research Samples	149
	Research Period (years)	4
	Total Research Samples	596
	Number of outlier data	(532)
	Total Final Samples	64

Data for this study comes from financial statements and annual reports of technology companies listed between 2021 and 2024 on the ASEAN Stock Exchange. These reports were downloaded from the official stock exchange websites: [www.idx.co.id](http://www.idx.co.id), [www.bursamalaysia.com](http://www.bursamalaysia.com), [www.sgx.com](http://www.sgx.com), [www.set.or.th](http://www.set.or.th), and [www.aseanexchanges.org](http://www.aseanexchanges.org). The four-year observation period allows the researcher to analyze and evaluate the performance and development of the companies over time.

With the aid of Andrew F. Hayes' PROCESS Macro version 5.0, the data were processed using SPSS (Statistical Package for the Social Sciences) version 27. Between 2021 and 2024, 303 technology businesses were listed on ASEAN stock exchanges, which include Indonesia, Malaysia, Singapore, and Thailand. Among these, 16 technology companies met the specified criteria for a four-year observation period, 64 samples in all were used in this investigation. However, from the four years of annual financial report data analyzed, 532 outlier data points were identified and excluded as they did not meet the testing criteria.

The high proportion of outliers in this study is mainly attributable to the substantial volatility of cross-country financial data, which naturally generates extreme observations. Meeting SPSS normality requirements for parametric analysis further necessitated the removal of a large number of these extreme values. Moreover, the computation of discretionary accruals based on the estimation of  $\alpha$  and  $\beta$  parameters produces wide value dispersion, reinforcing the elevated outlier rate.

### Research Framework

Because they demonstrate effective resource management, information transparency, and investor confidence in the company's long-term performance sustainability, optimal financial performance, and the application of sound corporate governance, both positively impact firm value. In contrast, the indirect relationship between profitability and management ownership in terms of firm value is explained by earnings management, which acts as a mediating variable. Therefore, how the market views a company's success and future can be influenced by its management style.

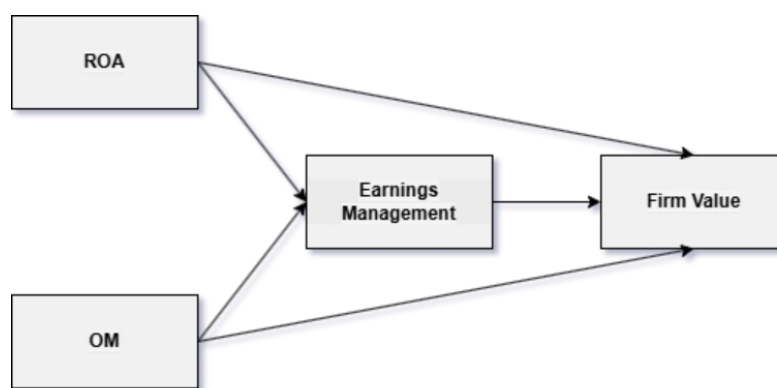


Figure 1. Research Framework

This model is employed to investigate the degree to which corporate governance and financial performance impact firm value. To identify this association, the study involves a mediating variable, earnings management. It is anticipated that earnings management would make clear the intricate connections between corporate governance and company value as well as between financial performance and firm value.

## RESULT AND DISCUSSION

### Descriptive Statistic test

Table 3. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	64	-0.25	0.24	0.0365	0.09807
KM	64	-0.20	0.85	0.2268	0.24682
DA	64	0.09	4.46	1.2322	0.84173
PBV	64	-2.49	3.59	0.4103	1.38188
Valid N (listwise)	64				

Source: SPSS 27, 2025

A comprehensive summary of the descriptive statistics for the dependent, independent, and mediating variables, which covered a total of 16 company observations, was derived from the data analysis results shown in Table 3. The mean, standard deviation, minimum, and maximum values for every research variable are included in the descriptive statistics. According to the findings, management ownership has an average of 0.2268 with a standard deviation of 0.24682, while the profitability variable, as estimated by the Return on Assets (ROA) Ratio, has an average value of 0.0365 with a standard deviation of 0.09807. The earnings management variable, as estimated by Discretionary Accruals (DA), has an average value of 1.2322 with a standard deviation of 0.84173, while the average value for managerial ownership is 1.2592 with a standard deviation of 0.11992. Additionally, the Price to Book Value (PBV) ratio, which measures firm value, has an average of 0.4103 and a standard deviation of 1.38188. As a basis for determining causal relationships between financial performance, corporate governance mechanisms, earnings management, and firm value in the technology sector across ASEAN during the 2021–2024 period, these results show differences among companies in terms of financial structure, profitability, governance mechanisms, and market performance.

### Classic Assumption Testing

The residuals are normally distributed, according to the findings of the normality test for the dependent variable (PBV) and the mediating variable (DA) using the Kolmogorov–Smirnov test. The Asymp. Sig. (2-tailed) values of 0.200, respectively, surpass the significance level of 0.05, supporting this conclusion. All tolerance values are larger than 0.10, and the VIF values are fewer than 10,

according to the multicollinearity test for the four independent variables against the dependent and mediating factors. Consequently, it can be said that multicollinearity is not present. Each variable's values are more than 0.05, according to the heteroscedasticity test using a Rank Spearman. Thus, it may be said that neither of the regression models shows heteroscedasticity. Additionally, the Runs Test was used to perform an autocorrelation test before to the regression analysis. Z-values of -0.379, along with p-values of 0.705, are displayed in the results. Therefore, it can be said that the residuals show no signs of autocorrelation.

**Table 4.** Summary of Classic Assumption Testing

Test	Method	Result	Conclusion
Normality	Kolmogorov-Smirnov Test	p-value = 0.200 (>0.05)	Residuals are normally distributed
Multicollinearity	Variance Inflation Factor (VIF)	VIF < 10, Tolerance > 0.1	No multicollinearity
Heteroscedasticity	Rank Spearman	p-value > 0.05	No heteroscedasticity
Autocorrelation	Runs test	Z-value = -0.379, p-value = 0.705	No autocorrelation

Source: SPSS 27, 2025

## Anova Testing

**Table 5.** Results of Anova testing

	Country	Normality Test	Homogeneity Test	Anova Test		Conclusion
				One-Way	Welch	
ROA	IND	0.031	0.008	-	0.658	Rejected
	MLY	0.004				
	SGP	0.200				
	Thai	0.096				
OM	IND	0.013	0.000	-	0.000	Accepted
	MLY	0.149				
	SGP	0.000				
	Thai	0.003				
PBV	IND	0.200	0.095	-	0.111	Rejected
	MLY	0.050				
	SGP	0.200				
	Thai	0.200				
DA	IND	0.200	0.366	0.022	-	Accepted
	MLY	0.200				
	SGP	0.200				
	Thai	0.200				
	Country		Post Hoc		Result	Conclusion
			Turkey	Games-Howell		
ROA	IND	MLY	-	0.670	Not Significant	IND = MLY
		SGP	-	0.999	Not Significant	IND = SGP
		Thai	-	0.936	Not Significant	IND = Thai
	MLY	SGP	-	0.662	Not Significant	MLY = SGP
		Thai	-	0.821	Not Significant	MLY = Thai
	SGP	Thai	-	0.916	Not Significant	SGP = Thai
OM	IND	MLY	-	0.000	Significant	IND < MLY
		SGP	-	0.000	Significant	IND < SGP
		Thai	-	0.000	Significant	IND < Thai
	MLY	SGP	-	0.011	Significant	MLY < SGP
		Thai	-	0.066	Not Significant	MLY = Thai

	SGP	Thai	-	0.000	Significant	SGP > Thai
PBV	IND	MLY	-	.227	Not Significant	IND = MLY
		SGP	-	1.000	Not Significant	IND = SGP
		Thai	-	.458	Not Significant	IND = Thai
		SGP	-	.165	Not Significant	MLY = SGP
		Thai	-	.843	Not Significant	MLY = Thai
	SGP	Thai	-	.328	Not Significant	SGP = Thai
DA	IND	MLY	.025	-	Significant	IND > MLY
		SGP	.685	-	Not Significant	IND = SGP
		Thai	.541	-	Not Significant	IND = Thai
		SGP	.070	-	Not Significant	MLY = SGP
		Thai	.229	-	Not Significant	MLY = Thai
	SGP	Thai	1.000	-	Not Significant	SGP = Thai

The results of the normality and homogeneity tests guided the selection of appropriate mean-difference analyses for each variable. For ROA and OM, the data violated the homogeneity assumption, necessitating the use of Welch ANOVA, which revealed significant differences in firm performance and corporate governance across countries. Even though PBV passed the homogeneity test, the normality test indicated that the data were not normally distributed, so the testing was still carried out using Welch ANOVA.

Post-hoc Games–Howell tests further indicated that Singapore differed significantly from Indonesia, Malaysia, and Thailand for several OM indicators, while Singapore consistently showed lower outcomes than other countries. In contrast, DA met the homogeneity assumption, allowing the use of standard one-way ANOVA, which showed significant country-level differences supported by Tukey post-hoc results, particularly highlighting Indonesia's stronger performance relative to Malaysia, Singapore, and Thailand. Overall, the findings demonstrate clear cross-country variations in financial performance and corporate governance metrics, confirming that firm outcomes differ meaningfully across Indonesia, Malaysia, Singapore, and Thailand.

## Hypothesis Testing

**Table 6.** Results of hypothesis testing

Variable	Model 1		Model 2	
	t-statistic	Sig.	t-statistic	Sig.
(Constant)	1.202	0.000	0.736	0.003
Profitability	4.625	0.000	-0.968	0.593
Managerial Ownership	-0.353	0.351	-1.281	0.079
Earnings Management	-0.142	0.036		
R	0.349		0.064	
Adjusted R Square	0.316		0.033	
F	10.554		2.044	
Sig.	0.000		0.138	
	profitability		managerial ownership	
BootLLCI	-0.1101		0.0045	
BootULCI	0.7927		0.6324	

Source: SPSS 27, 2025

According to the results, Model 1's Adjusted R<sup>2</sup> is 0.316, meaning that 31.6% of the independent variables account for firm value, with the remaining 68.4% being influenced by variables not included in this study. On the other hand, Model 2's Adjusted R<sup>2</sup> of 0.064 indicates that it has a lesser explanatory power, explaining only 6.4% of the variation in firm value. The results of the F-test also show that whereas Model 2 (F = 2.044; p = 0.138 > 0.05) does not show a significant overall



effect, Model 1 is statistically significant ( $F = 10.554$ ;  $p = 0.000 < 0.05$ ), suggesting a simultaneous effect of the independent variables on firm value.

### **The Effect of Profitability on Firm Value**

Based on the analysis results, the profitability variable shows a t-statistic of 4.625 with a significance level of 0.000, which is lower than the 0.05 threshold. Therefore, H1 is accepted, indicating that profitability has a significant effect on firm value. This finding is consistent with the studies of Ambarwati & Vitaningrum (2021), Wulandari & Ayem (2022), and Erawati & Al Ghafuur (2024), which demonstrate how higher profitability can raise a company's worth. A company's capacity to use resources and capital efficiently is shown in its high profitability, which gives investors a good indication and raises the company's worth. Profitability has a substantial and favorable impact on corporate value, according to the research findings, indicating that a firm's capacity to turn a profit might improve the market's assessment of its chances for expansion and financial stability. However, this result contrasts with the findings of Farizki et al. (2021) and Putranto et al. (2022), who found that profitability has no significant effect on firm value.

### **The Effect of Managerial Ownership on Firm Value**

Based on the research findings, the managerial ownership variable shows a t-statistic of  $-0.353$  with a significance level of 0.351, which is higher than 0.05; therefore, the hypothesis is rejected. This indicates that managerial ownership has no significant effect on firm value. This result is consistent with the findings of Setyasari et al. (2022), Lestari et al. (2022), and Erawati & Al Ghafuur (2024), this imply that an increase in the value of the company is not always correlated with the percentage of shares held by managers. This condition suggests that, even in cases when managers own stock in the company, the interests of shareholders and managers do not always coincide. Furthermore, outside variables like financial performance, capital structure, and market conditions could have a greater impact on business value. According to Jensen & Meckling (2019) agency theory, management ownership should lessen agency conflicts, but this effect can be minimal if managers put their own interests ahead of increasing the value of the company. However, this finding differs from studies conducted by Gunawan et al. (2024) and Fana & Prena (2021), which demonstrated that managerial ownership has a significant effect on firm value.

### **The Effect of Profitability on Earnings Management**

The research results show that profitability has a t-statistic of  $-0.968$  with a significance level of 0.539, which is above the 0.05 threshold; therefore, H1 is rejected. This indicates that profitability has no significant effect on earnings management. This finding is consistent with the studies of Husni & Idayu (2022) and Setyawan et al. (2021), this imply that managers are not encouraged to falsify financial statements by steady profitability levels. According to this scenario, businesses that generate high profits are typically watched more closely by regulators and shareholders, which reduces the opportunity for earnings management techniques. Additionally, managers will be less pressured to control earnings since creditors and investors are more likely to assess performance using long-term fundamentals rather than short-term profit fluctuations. Therefore, external constraints and the efficiency of corporate governance processes have a greater influence on earnings management than profitability. However, these results differ from those of Qurniawati & Setyowati (2023) and Amelia & Purnama (2023), who found that profitability has a significant effect on earnings management.

### **The Effect of Managerial Ownership on Earnings Management**

The research results show that managerial ownership has a t-statistic of  $-1.281$  with a significance level of 0.079, which is above the 0.05 threshold; therefore, H1 is rejected. This indicates that managerial ownership has no significant effect on earnings management. This finding is consistent with the studies of Pratika & Nurhayati (2022) and Yuniawati et al. (2025), which demonstrate that managerial ownership of shares has not been successful in bringing management's and shareholders' interests into line with earnings management techniques. This situation could be explained by the fact

that managers own a comparatively small percentage of the company's shares, which restricts their ability to influence strategic choices, or by the fact that managers continue to prioritize their own interests even when they own stock. Because managerial actions are more impacted by outside forces and the state of the company's finances, managerial ownership has not worked as an effective control mechanism to lessen earnings management. However, these results differ from the findings of Holly et al. (2022) and Ishmah & Permatasari (2025), who found that managerial ownership has a significant effect on earnings management.

### **The Effect of Earnings Management on Firm Value**

The research results indicate that earnings management has a t-statistic of -2.145 with a significance level of 0.036, which is below the 0.05 threshold; therefore, H1 is accepted. This finding suggests that earnings management has a significant effect on firm value. The result is consistent with the studies of Rajab et al. (2022) and Sinatraz & Suhartono (2021), which imply that investors' opinions of a company's performance and future might be influenced by earnings management techniques. Since such accounting manipulation acts can erode investors' trust in the reliability of financial statements, earnings management tactics have been shown to have a detrimental effect on business value. Investors often respond by reducing their valuation of the company's stock, which lowers the market value of the stock, when they believe that the reported earnings do not accurately reflect the company's true economic situation. However, these findings contrast with those of Suryadi (2022) and Putry & Murni (2022), who found that earnings management has no significant impact on firm value.

### **Earnings Management as a Mediating Variable in the Relationship between Profitability and Firm Value**

The mediation analysis using PROCESS Macro Hayes shows BootLLCI = -0.1101 and BootULCI = 0.7927 (the confidence interval crosses zero), indicating that H1 is rejected. This means that earnings management does not significantly mediate the relationship between profitability and firm value. This finding is consistent with Yusuf et al. (2023) and Selfiyan (2021), who discovered that earnings management techniques have little bearing on the relationship between profitability and company value. Profitability is a crucial measure of financial performance that, in theory, shows how well a business can produce actual profits without resorting to accounting fraud. High profitability already sends a positive signal to the market about the company's future, hence profits management has no further impact on increasing firm value, according to signaling theory. However, this result contrasts with the findings of Ramashar & Hasan (2018) and Permatasari & Asyik (2017), who demonstrated that earnings management mediates the relationship between profitability and firm value.

### **Earnings Management as a Mediating Variable in the Relationship between Managerial Ownership and Firm Value**

The mediation analysis using PROCESS Macro Hayes shows BootLLCI = 0.045 and BootULCI = 0.6324 (the confidence interval does not cross zero, indicating that H1 is accepted. This means that earnings management significantly mediates the relationship between managerial ownership and firm value. This finding is consistent with Holly et al. (2022) and Kusmiyati & Machdar (2023), who claimed that through earnings management, managerial ownership indirectly affects business value. Since managers immediately feel the effects of their decisions, high managerial ownership pushes them to be more cautious when it comes to financial reporting. This allows earnings management methods to be focused on improving performance and investors' impressions of the company. This influence is mediated by earnings management, which demonstrates that the higher the firm value and the lower the earnings manipulation methods, the bigger the managerial ownership. According to the framework of agency theory, managerial ownership serves as a governance mechanism that restrains earnings management activities, thereby enhancing the company's worth. However, this result differs from the findings of Hermanto et al. (2018) and Azaria & Muslichah

(2021), which demonstrated that earnings management does not mediate the effect of managerial ownership on firm value.

## CONCLUSION

This study concludes that profitability significantly influences firm value, whereas managerial ownership does not. The results show that the practice of altering financial information lowers investor confidence and the dependability of financial statements, which raises perceived risk and lowers the company's market value. Earnings management has a major impact on firm value. Additionally, it has been discovered that managerial ownership and profitability have little bearing on earnings management. Furthermore, it has been demonstrated that earnings management acts as a mediating factor, bridging the gap between managerial ownership's impact on firm value. Earnings management therefore serves as an indirect mechanism that amplifies the impact of managerial ownership in raising the value of the company. Earnings management, on the other hand, cannot mediate the relationship between profitability and firm value.

The study's findings offer clear implications for both investors and firms. The negative effect of earnings management indicates that financial manipulation can reduce information credibility and investor confidence, which in practice often results in higher capital costs and increased regulatory scrutiny. In contrast, the positive impact of profitability underscores the importance of strengthening operational efficiency, as consistently profitable firms typically enjoy better market perceptions and easier access to financing. Managerial ownership also helps align managerial and shareholder interests, limiting opportunistic behavior and supporting long-term value creation. Overall, these results suggest that profitability and managerial ownership are positive market signals, while earnings management remains a critical risk factor that must be carefully monitored.

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