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The Impact of Board and Ownership Structures on Earnings Management Behavior: Insights from The Managerial Literature

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Abstract:

This research aims to review the previous empirical evidence in the literature to provide an overview of the complex nexus between board and ownership structures and earnings management. Through a critical review of scholars spanning diverse geographical contexts and periods, the review analyzed the impact of various board characteristics (size, independence, composition, CEO duality, meeting frequency, and gender diversity) and ownership types (managerial, institutional, foreign, state, and concentrated) on the extent and direction of EM. The findings ensured that while certain board attributes, such as independence and size, and specific ownership structures, such as institutional ownership, are generally expected to limit EM, the evidence is often mixed. This research underscores the importance of considering the dynamic interplay of various governance mechanisms and the potential endogeneity issues in understanding the effectiveness of corporate governance in curbing earnings management. Finally, this paper contributes to developing more understanding of the multifaceted nexus between board and ownership structures and EM. Moreover, it assumes future research that develops more robust and context-specific scholars.

Keywords: Board of Directors / Ownership Structures / Earnings Management / Managerial Manipulation / Business Environment.

1. Introduction:

1.1. Background and Significance.

Earnings management (EM) is a critical and arguable phenomenon within the global business environment, impacting the reliability and integrity of managerial and financial information provided to stakeholders (Abba et al., 2023; Rad et al., 2016). In its essence, EM refers to the manipulation of disclosed information and earnings to achieve specific goals, often deviating from the true firm performance in general. This management or manipulation can be in several types, ranging from the timing of recognition with revenue and expense to the using of discretion to change the disclosed earnings volume (Mwangi & Nasieku, 2022; Tran et al., 2020).

EM significance arises from its massive implications for the efficiency and effectiveness of capital exchange markets. Financial performance is the cornerstone for decision-making by stakeholders. Transparent reporting is important for these parties to evaluate the firm's health and performance (Siraji & Nazar, 2021). So, when any firm involves in EM, it harms the disclosed information through its reports, limiting the foundation upon which investment and lending decisions are made. This manipulation can lead to misallocation of resources, market inefficiencies, and a decline in investor confidence (AL-Duais et al., 2022; Alhadab et al., 2020; Tran et al., 2020)

EM presents a challenge to the concepts of faithful representation and neutrality. When firms (managers) manipulate earnings, it raises concerns about the reliability of financial information. Furthermore, the implications of EM go beyond individual firms; they can impact the broader economy by increasing the cost of capital (Holanda & Coelho, 2016; Vadasi & Polyzos, 2023).

The concept of EM is well studied in the previous managerial literature. Scholars have consistently demonstrated that firms engage in EM (across various sectors and countries) to achieve a multitude of goals, including meeting earnings expectations and avoiding debt covenant violations (Alzoubi, 2016). The EM research is particularly valuable in today's dynamic business environment. With increasing pressure on firms to deliver consistent firm performance, the temptation to engage in EM can be amplified (Dong et al., 2020). Moreover, the development of sophistication of standards and the proliferation of complex financial instruments have created new avenues for managers to manipulate earnings, making it necessary to understand the main drivers of EM behavior (Abbasi & Qomi, 2017; Adous et al., 2021; Fadzilah, 2017).

1.2. Research Problem/Motivation:

A comprehensive framework of EM concept and determinants remains unclear. The literature in this area is characterized by mixed evidence and findings (Almuzaiqer et al., 2022; Attia et al., 2022; Burghleh & Al-Okdeh, 2020; Nguyen et al., 2020). This lack of a unified lens limits the ability to develop a comprehensive understanding for EM and to develop effective policies for its negative effects.

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The main challenge in this area is the complexity of the EM. It is influenced by many elements, such as corporate governance, financial attributes, regulatory environments, and managerial incentives (Almarayeh et al., 2024; Farouk & Bashir, 2017; Rafique et al., 2018). Moreover, these factors are often interconnected in complex manners, making it not easy to isolate their effects individually. Furthermore, the methods adopted in measuring EM vary, ranging from accrual-based model to real activity manipulation. This diversity in methods leads to make evidence mixed (Abba et al., 2023; Kharashgah et al., 2019; Nurainun, 2021).

Considering these obstacles and challenges, there is a need for a comprehensive review of the literature on the determinants of EM. This review aims to explore the diverse results and provide a deeper understanding of the EM behavior. this review will contribute to the development of a more robust framework for EM.

1.3. Research Questions and Objectives:

This review is tried to answer the following questions:

- What is the nexus between board structure and EM?
- What is the nexus between ownership structure and EM?
- What are the knowledge gaps in the previous literature, and what are the potential future research fields?

To answer above questions, this review aims to achieve many objectives:

- Identify the determinants of EM into two categories (board and ownership).
- Analyze the previous evidence, highlighting both supporting and conflicting evidence and results.
- Discuss the theoretical frameworks that used to explain the nexus between board, ownership, and EM.

1.4. Scope and Limitations:

The scope of study is limited to scholars that examined the EM in terms of board and ownership structures. In addition, it focused on empirical scholars indexed in "Mendeley database". Moreover, the review covered studies which published within the last decade (from 2015 to 2024). It is important to disclose that the review is subject to some limitations. First, publication bias, so the review included a wide range of studies within different business environments. Another limitation is the language bias, as the review focused on studies published in the English only.

2. Methodology

2.1. Literature Search Strategy:

this review rests on a comprehensive search strategy designed to capture a wide spectrum of relevant studies regarding the nexus between board, ownership, and EM.

2.1.1. Database Selection:

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"Mendeley" is the database used for this review; this database was chosen for its wide coverage of academic journals in business administration. This database offers robust search functionalities and indexing, enabling the identification of relevant studies. In addition, it allows an automatically referencing method.

2.1.2. Search Terms and Keywords:

The search strategy applied a combination of keywords related to "earnings management" and its potential determinants. Thus, key search terms included: "Earnings management", "Corporate governance", "Ownership structures", "Earnings manipulation", "Accrual earnings management", and "Real earnings management", these keywords were used in various combinations and with Boolean operators (AND, OR, NOT) to refine the search and ensure comprehensive coverage.

2.1.3. Inclusion and Exclusion Criteria:

specific inclusion and exclusion norms were established. In terms of inclusion, (A) Studies that empirically examine the determinants of earnings management. (B) Studies published within the specified time frame (the last decade from 2015 to 2025), with exceptions for seminal works. (C) Studies written in English. (D) Studies that include quantitative data. However, exclusion norms were, (A) Studies that are purely theoretical or conceptual. (B) Studies that focus solely on the consequences of EM without examining its determinants. (C) Studies with no empirical data.

2.2. Data Extraction and Synthesis:

2.2.1. Data Extraction:

A data extraction form was developed to ensure consistency in the information collected from each study. Thus, the following information was extracted from each study: (country and period and key findings)

2.2.2. Synthesis Methods:

A narrative synthesis approach was applied to analyze and review the results from the selected scholars. So, this approach involved organizing the results into meaningful categories based on the identified determinants of EM. Moreover, the results were then synthesized and compared across scholars, highlighting both supporting and conflicting evidence.

3. Determinants of earnings management: insights from the literature.

This section explores the multifaceted determinants of EM. Then, categorized these determinants into groups to facilitate a structured and insightful analysis for the factors that influence reporting behavior. To review this lens of EM determinants, the researcher has categorized them into two main groups: (A) Board structures, such as board size, independence, diversity, compensation, and duality. (B) Ownership structures, such as managerial, institutional, foreigner, concentration, state, and family ownership.

3.1. Board structures and EM: The Guardian of Financial Reporting Integrity

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Vol.4 No.2, April 2025
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3.1.1. Global evidence from the literature.

The nexus between board structures and EM has been studied in the literature, revealing mixed evidence. In the following table (1), the researcher illustrated a sample of related studies in the literature regarding board structures.

Table (1) Reviewing the nexus between board structure and EM.

No.	Article	Country & Period	Key Findings
1	(Jamaludin et al., 2015)	Malaysian 2005 to 2010	A significant support on the nexus between boards of directors' composition towards EM
3	(Obigbemi et al., 2016)	Nigeria 2003 to 2010	A negative nexus between board size and gender with EM. Also, there is a positive nexus between board meeting and EM. However, there is a positive non-significant nexus between CEO duality and EM
4	(Elghuweel et al., 2017)	Oman 2001 to 2011	No evidence that board size, audit firm size, the presence of audit committee and board gender diversity have any significant nexus with EM
5	(Abbasi & Qomi, 2017)	Tunisian 2009 to 2013	A positive nexus between board size, board independence, board meetings and EM. Moreover, CEO duality has no nexus with EM.
6	(Juhmani, 2017)	Baharain 2011 to 2013	board independence has no significant nexus with EM. However, board size and meetings have a significant positive nexus with EM.
7	(Fadzilah, 2017)	Malaysia 2009 to 2012	board independence and meeting have a significant positive nexus with EM.
8	(Egbunike & Odum, 2018)	Nigeria 2011 to 2016	board size, board composition, and CEO duality have a positive nexus with EM. However, board independence has a negative nexus
9	(Kharashgah et al., 2019)	Jourdan 2011 to 2017	a non-significant nexus between board independence and EM. However, a significant positive nexus between board size, CEO duality, and EM. Moreover, a significant negative nexus between board meeting and EM.

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DOI: https://doi.org/10.56830/IJNZ1133

10	(Dieu, 2019)	Finland 2016 to 2018	a positive nexus between board meetings, CEO duality, and EM. Moreover, the board's gender diversity has a negative nexus with EM.
11	(Rajeevan & Ajward, 2020)	Colombia 2015 to 2017	A positive nexus between CEO duality and EM. Moreover, board size, board independence, and Audit committee size show a significant negative nexus with EM.
12	(Burghleh & Al-Okdeh, 2020)	Jourdan 2013 to 2017	board size and financial experience have a negative nexus with EM. However, the board meetings had no effect on EM
13	(Nurainun, 2021)	Indonesia 2017 to 2019	Board size has a negative and significant nexus with EM. However, board independence and audit committee have a negative and insignificant nexus with EM.
14	(Adous et al., 2021)	Jourdan 2015 to 2020	Board size and meeting have a negative and significant nexus with EM.
15	(Cho & Chung, 2022)	Vietnam 2012 to 2017	Board size has a negative nexus with EM. However, independence has not significantly nexus with EM
16	(Almuzaiqer et al., 2022)	UAE 2011 to 2018	Board meetings have a positive nexus with EM, while audit committee meeting has a negative nexus with EM. However, board size, independence, audit committee had insignificant nexus with EM
17	(Attia et al., 2022)	Egypt 2008 to 2017	board size has a negative nexus with EM. Whereas board meetings are positively and significantly related to EM. Furthermore, board independence and CEO duality have nonsignificant impact on EM
18	(Hasan et al., 2023)	Bangladesh 2016 to 2020	Board size and independence have a significant positive nexus with EM. Moreover, Board gender diversity has a significant negative nexus with EM
19	(Vadasi & Polyzos, 2023)	Greece 2015 to 2019	Board independence and CEO duality limit EM. While Board size has no effect.

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Vol.4 No.2, April 2025
Print ISSN: 2834-8923 Online ISSN: 2832-8175
DOI: https://doi.org/10.56830/IJNZ1133

20	(Almarayeh et al., 2024)	9 countries from Middle Eastern and North African 2014 to 2021	Board size, independence, and gender diversity do not affect EM, while CEO duality has no effect on accrual EM but has a significant and negative effect on real EM.

3.1.2. Theoretical arguments and background:

The nexus between board structures and EM is grounded in the agency theory. which contends that the ownership separation and management results in an interest conflict. In detail, managers act in accordance with their interest over the interests of shareholders, leading to practices like EM to hide the true firm performance or achieve personal gains. In this context, the board of directors (BOD) serves as an important monitoring mechanism that helps to decrease agency costs. The board's composition, particularly the proportion of independents, becomes a major element. Independent directors are less susceptible to managerial influence and more likely to behave in the best shareholders' interests, reducing EM practices. As a result, board size, which influences monitoring capacity, and the CEO duality, which concentrates power, are both important variables in this framework (Abbasi & Qomi, 2017; Alhadab et al., 2020; Fadzilah, 2017).

From another side, stakeholder theory ensuring that the firm's responsibility to stakeholders beyond shareholders, and it underscores the ethical implications of EM, as it can harm not only investors but also the broader society. Consequently, boards with diverse compositions and strong governance practices are expected to consider the interests of all stakeholders, decreasing the manipulative disclosure practices. Complementing this, information asymmetry theory assuming the informational advantage managers possess over other stakeholders. (Adous et al., 2021; Attia et al., 2022; Juhmani, 2017).

Resource dependence theory provides another opinion, ensuring the board's role in securing resources. Boards with diverse networks can enhance a firm's ability to gain resources. Strong corporate governance, signalled by board structures attracting investors. Conversely, EM can harm the firm reputation, impacting the firm's ability to secure resources. Furthermore, institutional theory assumes the external pressures that shape firm's practices. Boards are expected to apply with standards, and regulations. This pressure to conform to best practices, including independent auditing and transparent reporting, influences the board's role in reducing EM. (Almarayeh et al., 2024; Almuzaiqer et al., 2022; Burghleh & Al-Okdeh, 2020).

3.2. Ownership Structures and EM: The Guardian of Wealth

3.2.1. Global evidence from the literature.

The nexus between ownership structures and EM has produced diverse evidence across global capital markets, revealing complex interactions between investor types. This review

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Print ISSN: 2834-8923 Online ISSN: 2832-8175
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synthesizes the empirical evidence from developing and developed markets over the past decade. In the following table (2), the researcher illustrated a sample of related studies regarding ownership structures.

Table (2) Reviewing the nexus between ownership structures and EM.

No	Article	Country & Period	Key Findings
1	(Liu & Tsai, 2015)	Taiwan	Institutional ownership has a negative nexus EM. However, managerial ownership does not have a nexus with EM
2	(Alzoubi, 2016)	Jourdan 2013 (one year)	Managerial, institutional, family, foreign, and ownership concentration have a negative nexus with EM
3	(Holanda & Coelho, 2016)	Brazil 1998 to 2010	ownership structures have no nexus with EM
4	(Rad et al., 2016)	Iran 2009 to 2013	Institutional ownership has a negative nexus with EM. But ownership concentration has a significant and positive nexus with EM.
5	(Farouk & Bashir, 2017)	Nigeria 2008 to 2014	Managerial and ownership concentration have a positive nexus with EM, while foreign ownership has a negative nexus with EM. However, institutional ownership has an insignificant but negative nexus with EM.
6	(Rafique et al., 2018)	Pakistan 2009 to 2015	Managerial and foreign ownership have a positive nexus with EM. However, there is an insignificant nexus between institutional ownership and EM.
7	(Maswadeh, 2018)	Jordan 2012 to 2016	The concentration of ownership has a negative nexus with EM, while there was no significant nexus between institutional and foreign ownership and EM.
8	(Tran et al., 2020)	Vietnam 2005 to 2019	The foreign ownership has a positive nexus with EM, while the ownership concentration limits EM.

International Journal of Accounting and Management Sciences
Vol.4 No.2, April 2025
Print ISSN: 2834-8923 Online ISSN: 2832-8175
DOI: https://doi.org/10.56830/IJNZ1133

9	(Alhadab et al., 2020)	Jourdan 2011 to 2017	Institutional ownership has a positive nexus with EM, whereas ownership concentration has a negative nexus with EM.
10	(Dong et al., 2020)	China 2003 to 2014	Ownership concentration has a positive nexus with EM, and managerial ownership has a negative nexus with EM.
11	(Nguyen et al., 2020)	Vietnam 2014 to 2018	State ownership has a negative nexus with EM, managerial ownership has a positive nexus with EM.
12	(Kablan, 2021)	Libya 2010 to 2014	Ownership concentration and state ownership have a negative nexus with EM, while each of the managerial and institutional, and foreign ownership has a positive nexus with EM practices.
13	(Hardyanti Budiman et al., 2021)	Indonesia 2013 to 2018	the foreign ownership has a negative nexus with EM, while the managerial has a positive nexus with EM.
14	(Siraji & Nazar, 2021)	Sri Lanka 2016 to 2020	Family and managerial ownership have a negative nexus with EM
15	(Hassan et al., 2022)	Palestine 2012 to 2019	ownership structures appear to be ineffective in limiting EM. However, there is weak evidence to show that ownership concentration has a negative nexus with EM.
16	(AL-Duais et al., 2022)	Malaysian 2013 to 2016	Family, foreign and institutional ownership have a negative nexus with EM
17	(Mwangi & Nasieku, 2022)	Kenya 2011 to 2019	managerial ownership, institutional ownership and ownership concentration have an insignificant effect on EM.
18	(Abba et al., 2023)	Nigeria 2012 to 2021	institutional ownership has a negative nexus with EM, whereas ownership concentration and foreign ownership have a positive nexus.

International Journal of Accounting and Management Sciences
Vol.4 No.2, April 2025
Print ISSN: 2834-8923 Online ISSN: 2832-8175
DOI: https://doi.org/10.56830/IJNZ1133

19	(Le & Nguyen, 2023)	Vietnam 2009 to 2018.	ownership concentration has a positive nexus with EM. Moreover, managerial and state ownership have a negative relationship with EM.
20	(Akter et al., 2024)	Bangladesh, India, and Pakistan 2015 to 2019	ownership concentration and managerial ownership have a negative nexus with EM. However, Institutional and foreign ownership do not affect EM.

3.2.2. Theoretical arguments and background:

Agency theory provides an explanation of how ownership structures effect EM. Managerial ownership, while aligning interests, can lead to entrenchment, creating a dual impact on firm practices. Institutional ownership, with its potential for active controlling, is expected to limit agency costs, thereby decreasing EM. However, the effectiveness of institutional controlling varies, influenced by the diversity of institutional investor. Similarly, concentrated ownership, while capable of exerting strong control, can either increase or decrease EM practices. This theory assumes the need to examine each ownership pattern and the contextual elements that effect their influence on firm performance (Abba et al., 2023; Mwangi & Nasieku, 2022; Rad et al., 2016; Tran et al., 2020).

stewardship theory assumes another opinion, suggesting that managers, under certain ownership patterns, act as stewards of the firm's resources, prioritizing long-term value. High managerial ownership can foster a stewardship mindset, decreasing the need for EM. Complementing this, information asymmetry theory highlights the informational advantage managers possess over stakeholders. Conversely, foreign ownership may face more information asymmetry due to cultural differences (AL-Duais et al., 2022; Alhadab et al., 2020; Siraji & Nazar, 2021).

Resource dependence theory argues the firm's dependence on external financial resources. concentrated owners, and foreign, Institutional investors can provide access to financial resources, networks, and strategic expertise. Additionally, institutional theory highlights the external pressures that shape firm performance. Regulatory compliance, the adoption of best practices, and cultural norms all play a role in influencing the acceptability of EM practices (Holanda & Coelho, 2016; Swai & Mbogela, 2016).

4. Conclusion

4.1. Critical Analysis of the nexus Between Board Structure and EM:

The impact of board structures on EM has been a subject of extensive scholarly inquiry, with studies across diverse contexts yielding a complex and often contradictory lens based on its results.

One of the most studied areas is the influence of **board size**. While some studies suggest a negative nexus, positing that larger boards possess greater oversight capacity (Abbasi & Qomi, 2017; Adous et al., 2021; Attia et al., 2023; Burghleh & Al-Okdeh, 2020; Cho & Chung, 2022; Nurainun, 2021; Obigbemi et al., 2016; Rajeevan & Ajward, 2020), others find a positive relationship, indicating potential inefficiencies or susceptibility to managerial influence (Egbunike & Odum, 2018; Hasan et al., 2023; Juhmani, 2017; Kharashgah et al., 2019; Obigbemi et al., 2016). In addition, many studies found no evidence on an effect (Almarayeh et al., 2024; Almuzaiqer et al., 2022; Elghuweel et al., 2017; Vadasi & Polyzos, 2023). This inconsistency suggests that the impact of board size might be contingent on other factors, such as the board's composition and the specific regulatory environment.

Regarding board independence, a cornerstone of good corporate governance, also presents a mixed picture. While theory suggests that independent boards are better equipped to curb EM, empirical findings are not always supportive. Several studies find no significant relationship **(Elghuweel et al., 2017; Kharashgah et al., 2019)**, while others report a positive association (Fadzilah, 2017). This discrepancy might stem from variations in how independence is measured or the presence of other mitigating factors that influence board effectiveness.

Concerning the **composition** of the board, including the presence of specialized committees like the audit committee and the financial expertise of directors, is another critical aspect. For instance, Rajeevan & Ajward (2020) demonstrate that the size of the audit committee has a significant negative relationship with EM, suggesting its potential to enhance financial reporting quality. However, Elghuweel et al. (2017) find no such relationship, highlighting the need for further exploration into the actual functioning and influence of these committees.

In terms of CEO duality, where the CEO also serves as the chairman of the board, is often hypothesized to exacerbate EM due to reduced board independence. However, the evidence is mixed. While some studies find a positive association with EM (Kharashgah et al., 2019), others report no significant relationship (Obigbemi et al., 2016) or even a negative association (Dieu, 2019). This suggests that in certain contexts, duality may not necessarily lead to poorer governance outcomes, potentially due to other mitigating factors.

The **board meetings**, often considered a proxy for board awareness, also presents a complex lens. While some studies find a positive nexus with EM (Fadzilah, 2017), others report a negative nexus (Kharashgah et al., 2019) or no significant as well (Burghleh & Al-Okdeh, 2020). This suggests that the mere frequency of meetings may not translate into effective controlling and that the quality of board decision-making processes.

The board **gender diversity** emerges as a relevant factor, with (Dieu, 2019) finding a positive influence on limiting EM. This highlights the potential benefits of diverse opinions and experiences in enhancing board role.

International Journal of Accounting and Management Sciences
Vol.4 No.2, April 2025
Print ISSN: 2834-8923 Online ISSN: 2832-8175
DOI: https://doi.org/10.56830/IJNZ1133

In deep, the literature provides an inconclusive nexus between board structures and EM. The impact of various board attributes appears to be contingent on contextual factors, methodological choices, and the interplay of different governance mechanisms. Further research is warranted to develop more nuanced models that account for these complexities and provide a more comprehensive understanding of the drivers of EM.

4.2. Critical Analysis of the nexus Between Ownership Structure and EM:

The nexus between ownership structures and EM is a complex area of research, as evidenced by the diverse evidence presented in the table (2). Studies across various contexts and time periods have explored the impact of different ownership patterns, including managerial, institutional, family, foreign, state, and concentrated ownership, on the extent and direction of EM practices.

Regarding managerial ownership, representing the percentage of shares held by firm executives, presents a mixed lens. While some studies suggest a positive nexus with EM, (Farouk & Bashir, 2017; Nguyen et al., 2020; Rafique et al., 2018), others find no significant nexus (Alzoubi, 2016; Dong et al., 2020; Liu & Tsai, 2015). This inconsistency might be attributed to variations in the level of managerial ownership and the presence of other governance mechanisms.

Concerning institutional ownership, representing the percentage of shares held by institutional investors, generally shows a negative nexus with EM (Liu & Tsai, 2015), suggesting that these investors play a controlling (Alhadab et al., 2020; Farouk & Bashir, 2017; Holanda & Coelho, 2016; Rad et al., 2016). However, some studies find no significant nexus (**Rafique et al., 2018)**, indicating that the effectiveness of institutional monitoring might depend on the specific characteristics of the institutions and their engagement.

In terms of foreign ownership, representing the percentage of shares held by foreign investors, also presents mixed evidence. While some studies suggest a positive nexus with EM, indicating potential information asymmetry and weaker governance **(Hardyanti et al., 2021; Tran et al., 2020)**, others find a negative nexus (Farouk & Bashir, 2017; Kablan, 2021). The impact of foreign ownership might depend on the origin of the investors and the regulatory environment.

Moreover, state ownership, representing the percentage of shares held by the government, is another major factor examined in the table (2). The findings are again mixed, with some studies suggesting a positive nexus with EM (**Kablan, 2021; Nguyen et al., 2020)**, while others find no significant nexus (**Alzoubi, 2016)**. The impact of state ownership might depend on the specific role of the government in the economy environment.

However, ownership concentration, representing the percentage of shares held by large shareholders, generally shows a negative nexus with EM, suggesting that concentrated ownership can lead to stronger controlling and decreased the managerial discretion **(Alhadab et al., 2020; Dong et al., 2020; Kablan, 2021; Maswadeh, 2018; Rad et al., 2016)**. However, it is important to note that concentrated ownership can lead to entrenchment and expropriation of minority shareholders, highlighting the need for strong minority shareholder protection.

In deep, the table (2) highlights the complex and context-dependent nexus between ownership structures and EM. The impact of different ownership patterns appears to be contingent on various elements, including, the regulatory environment and the interaction with governance mechanisms.

4.3. Future Research Directions:

The review identified many knowledge gaps in the previous literature, and suggesting potential area for future research.

- Behavioral practices of the board of directors in a comparison manner between developing and developed countries
- Expanding the sample of the research to examine more time periods and different countries regulatory cultures.
- Examine the relationship between ownership structures and earnings management (manipulation) within the recent period.
- Examine the relationship between board structures and earnings management (manipulation) within the recent period.
- Examine the impact of artifice intelligence (AI) on firm performance and board behavior in a comparison manner.

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