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CEO Power on Earnings Management and the Role of Earnings Targets: A Proposed Research Framework

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ABSTRACT

Research aim: This paper aims to present a conceptual framework for CEOs that abuse their power to manage earnings, and the pressure of attaining earnings targets moderating the effect of this power abuse on earnings management (EM).
Design/ Methodology/ Approach: To develop the proposed conceptual framework, this study performed a comprehensive literature review consisting of theoretical discussions and comparative arguments. The development of the framework also involved analysing and summarising the contributions, limitations, and suggestions from previous studies. Following this approach, the conceptual framework was built addressing issues related to CEO power, EM, and earnings targets.
Research finding: Based on the propositions, the proposed research framework expects a significant positive effect of CEO power on EM, and that the pressure of attaining earnings targets will significantly moderate the CEO power and EM nexus among Malaysian listed firms. Malaysian CEOs with more power are expected to manage earnings more easily, and the pressure of attaining earnings targets is expected to influence powerful CEOs to manage earnings.
Theoretical contribution/ Originality: The proposed conceptual framework adds new perspectives to the existing literature by explaining the linkages between CEO power, earnings targets, and EM based on agency theory and upper echelons theory. Moreover, the harmonisation between the Type I agency problem and upper echelons theory is a novel contribution. The framework highlights the influence of the pressure of earnings targets on powerful CEOs' EM practices. Moreover, two conditions for considering the effect of earnings targets are proposed.
Practitioner/ Policy implication: Malaysian audit firms and listed companies can shape their accounting and monitoring strategies based on the eight formulated propositions. Moreover, this paper will also enable Malaysian regulators and standard setters to revise the existing Malaysian Code on Corporate Governance (MCCG).
Research limitation: This is only a conceptual paper that requires an empirical study with quantitative data to test the propositions and validate the proposed conceptual framework. Hence, the anticipated practical implications are subjected to future empirical validation.
Keywords: CEO power, Earnings management, Earnings target, Agency theory, Upper echelons theory
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1. Introduction

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Accounting earnings are a significant indicator of a company's performance. Financial statements communicate essential information to investors, shareholders, creditors, and government entities, enabling them to make important decisions (Arioglu, 2020). Consequently, it becomes crucial to report the actual picture of a firm's finances. Reporting incorrect financial figures with the intention of misleading investors will hamper confidence in financial statements (Gull et al., 2018). Financial reporting strategies are sometimes used opportunistically to favourably report a firm's financial position (Barac, Vuko, & Šodan, 2017). This opportunistic reporting is driven by the performance-based compensation of management linked to the firm's financial performance (Stringer, Didham, & Theivananthampillai, 2011). To address this, earnings management (EM) practices are widely acknowledged as common in the area of financial reporting (Schipper, 1989). In terms of measuring financial reporting quality (FRQ), EM is used as a proxy in the literature (Hasan, Kassim, & Hamid, 2020; Hsu & Yang, 2022; Mardessi, 2022). It is important to emphasise here that EM involves manipulating financial figures to present a firm's financial position in a more favourable light, while fraudulent reporting represents a more serious type of financial misconduct (Perols & Lougee, 2011).

According to a 2020 statistical report by the Association of Certified Fraud Examiners (ACFE), Malaysia was ranked fifth in reported occupational fraud cases in Asia-Pacific countries, with 19 out of 198 cases reported from January 2018 to September 2019 (ACFE, 2020). In this regard, substantial evidence of engaging in fraudulent activities has been found among Malaysian companies that practice EM, using both accrual-based and real activities (Nasir et al., 2018; Rahman et al., 2016). A number of Malaysian firms (e.g., Kosmo Technology, Transmile, Polymate, Megan Media, and Welli Multi) were found to present inaccurate information to the Securities Commission Malaysia (Altarawneh et al., 2022). Similarly, several previous studies (e.g., Elsheikh et al., 2023; Ghaleb, Kamardin, & Hashed, 2022; Mahyuddin et al., 2020; Rahmat, Muniandy, & Ahmed, 2020; Roy & Alfan, 2022) have documented EM practices and lower FRQ among Malaysian listed companies.

The evidence presented in these studies points to the crucial issue of financial reporting misuse. In this regard, the CEO is the most powerful member of top management who can influence a firm's FRQ. This is because of the possible influence of a CEO over corporate statements like press releases, remuneration packages, and annual reports (Altarawneh, Shafie, & Ishak, 2020; Chandren, Qaderi, & Ghaleb, 2021). In the context of an emerging economy like Malaysia, there are cases where the CEO manipulates financial reporting and provides incorrect information to mislead shareholders (Altarawneh et al., 2020). For instance, the former CEO of Transmile Group Bhd was convicted of issuing deceptive financial statements to the Malaysian stock exchange (Bursa Malaysia) (SC, 2020). In a similar vein, the former CEO of YBS Tenaga Sdn Bhd was charged with two counts at the special corruption court, accused of misusing his power in transactions worth over RM2 million (Anjumin, 2022). Another case of CEO power abuse occurred at Pusat Pembangunan Kemahiran Sarawak ('Former Training Centre CEO', 2021)Click or tap here to enter text.. CEOs may prioritise their personal interests over maximising shareholder value, and to achieve this, they might engage in EM activities. This behaviour of creating a better self-image or maximising their interests is more frequent in companies with powerful CEOs (Le et al., 2022).

According to Altarawneh et al. (2022), the demographic characteristics of CEOs could be related to this misuse of power. A CEO's values, experience, expertise, and dispositions are reflected by demographic characteristics, which may influence critical decisions that affect organisational outcomes. CEOs with excessive power can raise the propensity for real EM, and may dilute the long-term performance of a firm (Kaur, Ramaswami, & Bommaraju, 2021). Accordingly, this points toward the abuse of CEO power to manage reported earnings. Certain CEO characteristics might enhance their power significantly, which can be misused to exploit EM as an avenue to maximise self-interest. Hence, the specific characteristics of CEOs that make them more powerful and hence enable them to practice EM more freely require further exploration.

Addressing the issue of companies practicing EM, Baskaran et al. (2020) suggest that the pressure of attaining earning targets has pushed companies to employ EM with unprecedented intensity. They state that public listed companies are under significant pressure to achieve earning targets, with this pressure only growing over time. In this regard, manipulation helps CEOs report successes when organisational outcomes are unfavourable (Infuehr, 2022). Consequently, CEOs exploit loopholes in accrual accounting to manage earnings, aiming to fulfil shareholders' expectations and secure their bonuses and compensation. Therefore, in addressing the agency issue concerning compensation and alignment, CEOs are responsible for manipulating the firm's earnings to meet the targets assigned by shareholders (Dechow & Skinner, 2000).

According to Schuster, Nicolai and Covin (2020), CEOs choose myopic strategies, such as reductions in R&D expenses, to achieve short-term earnings targets. Consequently, the closer CEOs get to their earnings targets, the more they are inclined to execute myopic R&D reductions. However, founder CEOs are less prone to cut R&D expenses than non-founder CEOs in terms of attaining the earnings levels of previous years (Schuster et al., 2020). According to Evana et al. (2019) and Paino and Iskandar (2021), the pressure of achieving predetermined financial targets makes managers take actions in the form of EM to paint the firm in a good light. In line with Baskaran et al. (2020), Evana et al. (2019), and Paino and Iskandar (2021), earnings targets can be presumed to influence the effect of CEO power on EM, which warrants further investigation. Several studies examine the effect of CEO characteristics and earnings targets on EM (Altarawneh et al., 2022; Ason et al., 2021; Dikolli et al., 2021; Griffin et al., 2021; Le et al., 2022; Mahyuddin, Nahar, & Yusri, 2020; Malikov & Gaia, 2021; Paino & Iskandar, 2021; Wesley et al., 2021). However, more study is required to examine how the pressure of achieving earnings targets influences powerful CEOs to manage earnings.

To the best of our knowledge, there remains a considerable lack of research on the collective impact of all CEO power-related characteristics on EM in a single study. Moreover, the moderating effect of the pressure of attaining earnings targets on the CEO power and EM nexus has thus far not been investigated. Another significant research gap is in terms of considering the effect of the pressure of attaining earnings targets measured based on the fulfilment of two conditions: having a positive change from the previous year's earnings, and meeting or beating said amount of positive change. Hence, this paper proposes a conceptual framework that addresses these research gaps. This conceptual framework is developed and proposed based on a thorough review of the literature related to the linkage between CEO power-related characteristics, earnings targets, and EM, as well as the theoretical presumptions of agency theory and upper echelons theory. This paper formulates eight propositions. The first two propositions on the effect of CEO ownership and founder CEOs on EM are based on the presumptions of the Type II agency problem. The next five propositions on the relationship between CEO managerial power and EM are based on the presumptions of the Type I agency problem and upper echelons theory. The eighth proposition on the moderating effect of the pressure of attaining earnings targets over the CEO power and EM nexus is in line with the presumptions of agency theory and upper echelons theory.

This proposed study offers several contributions to the growing literature on the extent of CEO power and its influence on EM practices. The conceptual research framework provides new insights into the existing literature by explaining the linkages between CEO power, earnings targets, and EM based on agency theory and upper echelons theory. Moreover, this paper makes a significant theoretical contribution through the synergy of the Type I agency problem and upper echelons theory. The eight formulated propositions based on the detailed review of literature in this paper have practical implications for Malaysian audit firms and listed companies in shaping their accounting and monitoring strategies respectively. Moreover, Malaysian regulators and standard setters can take reference from this paper in terms of revising the existing Malaysian Code on Corporate Governance (MCCG) if required. This paper can help researchers conduct empirical studies based on the proposed conceptual framework and formulated propositions. Consequently, further execution of this study will provide empirical findings and enhance the theoretical perspective to add to the body of knowledge on the effect of powerful CEOs on EM. Additionally, the research findings will reveal the application of agency theory and upper echelons theory among selected Malaysian listed companies based on this proposed conceptual research framework.

The remainder of this paper is structured as follows: Section 2 discusses the relevant literature on EM, agency theory, upper echelons theory, CEO power, the effect of CEO power related characteristics on EM, and the influence of earnings targets on the CEO power and EM nexus. The development of the propositions based on theoretical arguments is also presented in Section 2. Section 3 exhibits the proposed conceptual framework and the linkages between the variables and underlying theories, before concluding remarks are presented in Section 4.

2. Literature Review and Proposition Development

2.1. Earnings management

Organisations and individuals manage earnings either through accrual-based activities (AEM) or real activities (REM), which is a matter of concern for investors, regulatory bodies, and auditors (Dechow, 1994; Geiger & North, 2006). This concern has put substantial prominence on EM in both academic literature and the media (Jackson, 2018; Zang, 2012). EM is briefly and aptly defined as the deliberate manipulation of a company's reported earnings to conceal the true representation of its financial position (Gavious, Segev, & Yosef, 2012). According to Cohen, Dey, and Lys (2008), attaining forecasted income, improving upon the previous year's earnings, and avoiding reporting losses are the most significant motives that induce EM behaviour. Failing to achieve the projected earnings target in a certain year makes management respond by reporting revenues in the subsequent period, an opportunistic approach known as income smoothing, which is another form of EM (Jensen, Murphy, & Wruck, 2004).

According to the literature, EM takes the form of REM and AEM. REM refers to the intentional activities of restructuring or altering the timing of operating-, investing- and financing-related transactions to manipulate earnings in a certain direction (Roychowdhury, 2006; Zang, 2012). For instance, "accelerating sales, offering price discounts, reducing discretionary expenditures, altering shipment schedules and delaying research and development and maintenance expenditures" (Rankin et al., 2012). The manipulation of earnings in a certain direction with the help of activities related to intentional accounting practices, meanwhile, is known as AEM (Jackson, 2018). In this case, EM entails the misuse of elements within the accrual accounting system. This includes actions like manipulating the timing of reporting earnings, influencing the selection of accounting policies, and executing income smoothing strategies (Rankin et al., 2012).

According to Gavious et al. (2012), EM is often performed by employing discretionary accounting methods. Hence, companies that fail to meet forecasted earnings benchmarks tend to exhibit significantly higher levels of discretionary accruals. Cohen and Zarowin (2010) argue that REM and AEM are used by managers as substitutes, while Zang (2012) suggests that the use of AEM and REM by managers is based on their comparative costs. The abnormal component of total accruals is utilised to detect the discretion used by the managers over the accrual part of earnings. However, managers may avoid GAAP (generally accepted accounting principles) earnings manipulation, and choose real economic activities to smooth earnings and attain specific targets (Graham, Harvey, & Rajgopal, 2005). Hence, the application of both AEM and REM is significant as two distinct approaches to measure EM.

2.2. Agency theory

In the corporate governance domain, agency theory addresses the conflict of interest that arises between an agent and a principal. As the agent possesses more information and knowledge about the business compared to the principal, a conflict of interest emerges, with the agent able to make crucial decisions to prioritise self-interest over that of the principal (Parker et al., 2018). There are two types of conflict of interest between the principal and the agent. The Type I agency problem addresses the separation between ownership and control, where the management is the agent, and the shareholders represent the principal (Jensen & Meckling, 1976), whereas the conflict of interest among controlling and noncontrolling shareholders is termed as the Type II agency problem (Fama & Jensen, 1983). The objectives of the agency theory are detecting both the agency problem and the approaches to ascertaining the presence of the agency problem (Parker et al., 2018). Both types of agency problems have resulted in opportunistic EM practices (Ratnawati, Abdul-Hamid, & Popoola, 2016). According to Saona, Muro, and Alvarado (2020), managers' utility-seeking behaviour may induce them to prioritise their self-interest over maximising shareholder wealth. Therefore, EM can be considered an agency cost, as managers manage earnings to serve their own personal benefit at the cost of shareholder interest (Davidson, Jiraporn, & Nemec, 2004). Accordingly, agency theory is most appropriate for examining the relationship between CEO power and EM.

2.3. Upper echelons theory

Upper echelons theory posits that the behaviour of top management has a significant influence on shaping organisational behaviour, including EM (Hambrick, 2007). From this theoretical perspective, executives' personalities, values, and experiences shape their personalised interpretation of a situation which is then reflected in companies' outcomes, such as earnings quality (Hambrick, 2007; Hambrick & Mason, 1984). The upper echelons theory has been used extensively to explicate companies' implications and results. The theory postulates that CEO characteristics have a considerable impact on the development of organisational strategies (Hambrick & Mason, 1984), and that managerial traits impact organisational tactical decisions and performance (Wang et al., 2016), as well as decisions related to financial reporting (Plöckinger et al., 2016). For instance, CEO background has a significant influence on corporate behaviour, such as tax evasion (Ding et al., 2014), financial transparency (Reeb & Zhao, 2013), and financial fraud (Demerjian et al., 2013). From the upper echelon perspective, a strategic decision like practicing EM reflects the values and cognitive base of top management (Carpenter, Geletkancz, & Sanders, 2004). Therefore, the adoption of the upper echelons theory to examine the relationship between CEO managerial power and EM becomes more relevant.

2.4. CEO power

The Type I agency problem suggests the conflict of interest between managers (e.g., CEO) and owners (e.g., shareholders) (Jensen & Meckling, 1976), where managers might be induced by their utility-seeking nature and make vital decisions that better serve their personal interests over maximising shareholder wealth (Saona et al., 2020). Addressing the agency problem, CEOs might prioritise their own personal benefit more compared to maximising shareholder value and could manipulate earnings to attain this objective (Le et al., 2022), which is in line with the presumptions of the upper echelons theory. In this regard, the theory proposes that the managerial traits of top executives (e.g., CEOs) determine organisational behaviour like EM (Hambrick, 2007; Wang et al., 2016).

While the Type I agency problem addresses the divergences of interest between a CEO and shareholders that induce the former to manage earnings for his or her own interest, the upper echelons theory addresses the CEO characteristics that influence organisational behaviour such as EM. The effect of CEO ownership traits on EM is addressed by the Type II agency problem. The Type II agency problem can arise in organisations with concentrated ownership where majority shareholders (e.g., CEOs) utilise private information to make decisions in their favour at the expense of minority shareholders (Nurim, Sunardi, & Raharti, 2017; Panda & Leepsa, 2017).

The opportunistic behaviour of CEOs to maximise their self-interest is more common in companies where they hold significant power (Le et al., 2022). In this regard, agency theorists suggest that a firm's monitoring function might be affected by a powerful CEO in terms of pursuing their own interests (Boyd, 1994; Gomez-Mejia, Tosi, & Hinkin, 1987). According to Friedman (2014), a powerful CEO is an individual who has the capability of influencing others' corporate decisions using their power. In terms of making corporate decisions, a powerful CEO is an individual among the top executives who have the final say in the case of different opinions among individuals (Li, Park, & Bao, 2014). Therefore, a CEO is regarded as the most crucial executive in a company, and their decisions carry substantial influence on EM practices (Agrawal & Knoeber, 1996). Previous studies recognise ownership, being a founder, being a board chairperson, expertise, tenure, network, and political connection as the most important characteristics of a powerful CEO (Alhmood, Shaari, & Al-Dhamari, 2020; Griffin et al., 2021; Le et al., 2022; Qawasmeh & Azzam, 2020; Shiah-Hou, 2021).

Shareholding and being a founder are the two characteristics related to CEO ownership power, while duality, expertise, tenure, network, and political connection are the five characteristics that represent CEO managerial power. CEO ownership power increases with higher shareholding in the company and if they are founding members or related to founding members. A CEO who also serves as board chairperson, as well as with higher educational and business expertise, longer tenure in the company, larger corporate networks, and strong political connections are the traits of CEO managerial power.

2.4.1. CEO ownership and earnings management

Executive ownership entails control over the company, and minority shareholders becoming powerless to monitor opportunistic behaviour from executives that negatively affect their interest (Duarte & Leal, 2021). Therefore, executives may leverage their control and equity to exploit the interests of minority shareholders and maximise their self-interest. The positive effect of executive ownership on EM is evident in the literature (Abu-Serdaneh & Ghazalat, 2022). However, a positive but insignificant effect of managerial ownership on creative accounting among Nigerian listed companies is reported by Paul, Francis, and Ben-Caleb (2020). In contrast, Wesley et al. (2021) find that the likelihood of graduate CEOs issuing a financial restatement decreases with the increase of CEO equity ownership in the United States. According to Sani, Latif, and Al-Dhamari (2020) meanwhile, CEO ownership reduces the possibilities of REM and improves FRQ.

In Malaysia, many companies tend to experience a type II agency problem, where conflict can occur between the controlling shareholder and the minority shareholders (Abdullah & Ismail, 2016). A company's accounting information production and reporting policies are significantly influenced by controlling shareholders when they obtain substantial control over the company (Fan & Wong, 2002). As a result, opportunities arise for them to utilise the EM opportunistically in order to hide their expropriations of minority shareholders' interests. According to Qawasmeh and Azzam (2020), CEOs are concerned with short-term profitability, and such interest can be maximised using EM. Consequently, CEO ownership has a significant influence over the utilisation of EM practices with the objective of maximising CEO compensation. Considering the above discussion and in line with the presumptions of the type II agency problem, the following proposition is developed:

P1 An increase in CEO's ownership is positively related to earnings management.

2.4.2. Founder CEO and earnings management

A CEO is considered internally hired if he or she is the founder of the firm. This might be the case indicating a CEO's longstanding roles in the firm, which enhances their power to influence corporate decision-making (Adams, Almeida, & Ferreira, 2009). Therefore, a company's culture, strategy, values, and objectives are often significantly influenced by the founder CEO. Founders who hold the position of CEO are often focused on ownership and control, which captures the extent of CEO power in terms of influencing management and board decisions simultaneously (Stockmans, Lybaert, & Voordeckers, 2010). Therefore, independence between the CEO and the firm is foremost to ensure board monitoring effectiveness (Wang, 2014). However, Altarawneh et al. (2022) suggest that founder CEOs may demonstrate greater focus on enhancing their strategic decisions and be less prone to engage in EM in order to ensure higher FRQ. The opposite was found for Vietnamese listed companies, with Le et al. (2022) reporting a significant positive effect of founder CEOs on EM. This means that the presence of founder CEOs may lead to engagement in EM. They add that founder CEOs hold more power in a company, even if they do not have accounting, finance, or business backgrounds. For instance, when families have control over the CEO position, they are unlikely to encounter resistance to entrenchment, and would be more inclined towards earnings manipulation. Therefore, practicing EM is significantly evident among companies with family and founder CEOs (Gamra & Ellouze, 2021).

In terms of the reappointment of founder CEOs, Ansari, Goergen, & Mira (2021) report that CEOs manage earnings upward around the time of their reappointment to safeguard the position. In light of the above discussion and considering the presumptions of the type II agency problem, the following proposition is put forth:

P2 A firm's CEO being a founder of that firm is positively related to earnings management.

2.4.3. CEO duality and earnings management

Constraints are placed on board independence when the chairperson is also the CEO of the company, which reduces the effectiveness of monitoring mechanisms and leads to inferior corporate governance practices (Bliss, 2011). Consequently, CEOs may use EM to increase earnings with the aim of maximising their own compensation. Hence, it is extremely important to ensure that two separate individuals are performing the role of chairperson and CEO (Gong, Li, & Yin, 2019). In this regard, Gulzar and Zongjun (2011) state that separating the roles of CEO and chairperson may result in a significant reduction of EM practices. However, Paino and Iskandar (2021) and Paul et al. (2020) show no significant impact of CEO duality on EM. Alhmood, Shaari, and Al-Dhamari (2020) and Saona et al. (2020), meanwhile, reveal that CEO duality significantly reduces EM practices among Jordanian and Spanish listed companies respectively.

As per the proposition in agency theory, effective monitoring and transparent mandatory disclosures diminishes with the existence of CEO duality. Therefore, the separation of the CEO and chairperson roles is preferred to effectively monitor management in the case of well-performing companies (Dechow, Sloan, & Sweeney, 1996). In line with this proposition, Bouaziz, Salhi, and Jarboui (2020) and Chatterjee (2020) report higher EM practices among listed companies with CEO duality. According to Stockmans et al. (2010), an individual possessing both the roles of CEO and chairperson has formal authority over both the management and the board. According to the presumptions of the Type I agency problem, CEOs who are chairpersons have the formal power to affect monitoring effectiveness, and may practice EM to serve their own interests. Hence, CEO duality is a top management trait that induces organisational behaviour like EM based on the presumptions of upper echelons theory. The subsequent proposition is formed in the light of these arguments and considering the presumptions of the Type I agency problem and upper echelons theory:

P3 A firm's CEO being the board chairperson of that firm is positively related to earnings management.

2.4.4. CEO expertise and earnings management

As proposed by the upper echelons theory, manager personality traits, like expertise, can influence how they perceive and interpret the challenges and situations they are compelled to address (Hambrick, 2007; Hambrick & Mason, 1984). CEOs with higher levels of education exhibit greater proficiency in assimilating information and complying with substantial changes within the organisation (Bantel & Jackson, 1989). Consequently, CEOs with accounting and financial expertise tend to adopt a conservative approach to ensure higher FRQ (Matsunaga & Yeung, 2011). In this regard, Sani et al. (2020) suggest that appointing a CEO with expertise in the area of finance will improve FRQ, while also decreasing the possibility of EM-related practices. However, Altarawneh et al. (2022) report an insignificant effect of CEO expertise on AEM. Likewise, Ason et al. (2021) show no significant relationship between CEO accounting expertise and EM.

In contrast, Qi et al. (2018) suggest that CEOs who are highly educated acquire greater expertise and proficiency to execute AEM, which is more difficult than REM. Thus, CEOs with an accounting, finance or business backgrounds have a good understanding of EM and therefore, they have the capability and functional expertise to manage earnings (Fraser & Greene, 2006). According to Ettredge et al.

(2013), the information advantage of CEOs increases with their financial expertise, consequently increasing their ability to control that information. Thus, a CEO's experience in the finance domain could potentially lead to involvement in EM practices (Le et al., 2022). Moreover, the experience of CEOs helps them to manage earnings to preserve their self-interest. Therefore, CEOs with higher experience significantly increase REM practices (Alhmood, Shaari, & Al-Dhamari, 2020). Based on the above discussion, CEOs with higher expertise are capable of practicing EM more proficiently to serve their self-interest, which is in line with the presumptions of the Type I agency problem. In this regard, the presumptions of upper echelons theory suggest expertise as a CEO managerial trait that may influence organisational behaviour like EM. Consequently, the following proposition is formulated based on these arguments and considering the presumptions of the Type I agency problem and upper echelons theory:

P4 CEOs with higher expertise have a positive effect on earnings management.

2.4.5. CEO tenure and earnings management

Newly appointed CEOs are often highly motivated to report better firm performance during the early stage of their tenure to gain public confidence in their leadership (Ali & Zhang, 2015). This reporting might involve an overstatement of the firm's earnings activity. According to Qawasmeh and Azzam (2020), CEOs engage more in EM practices to exhibit inflated earnings during the initial years of their employment in order to convey a positive impression to stakeholders, compared to the latter years of their tenure. While CEOs may reduce companies' spending on R&D activities to manage earnings, their influence on these expenditures increases with the length of their tenure (Barker & Mueller, 2002). In contrast, Altarawneh et al. (2022) suggest higher FRQ among companies with higher CEO tenure, where CEOs are less prone to practice EM. Likewise, Bouaziz et al. (2020) find a significant negative effect of CEO tenure on discretionary accruals among listed companies in France.

Based on the upper echelons theory, CEO tenure influences the kind of decisions they make, as their experience increases with the length of tenure (Hambrick & Mason, 1984). According to Alhmood, Shaari, and Al-Dhamari (2020), CEOs are inclined to intervene and manipulate the disclosure of accounting information in financial reporting by using the experience gathered during their tenure. In this regard, Davidson et al. (2007) find aggressive income-increasing EM among companies where CEO tenure is high and close to retirement age. Similarly, Latif, Mohd, and Kamardin (2016) find evidence of smoothing reported earnings through frequent share repurchase, which is greatly influenced by CEO tenure. Ali and Zhang (2015) and Cho, Choi, and Kwon (2021) report a significant positive effect of CEO tenure on REM. According to the presumptions of the Type I agency problem, CEOs with longer tenure become more experienced and capable of practicing EM at ease to the best of their interests. Hence, CEO tenure is a managerial characteristic that influences organisational behaviour like EM based on the presumptions of upper echelons theory. Considering these arguments and following the presumptions of the Type I agency problem and upper echelons theory, the following proposition is put forth:

P5 CEOs with higher tenure are positively related to earnings management.

2.4.6. CEO network and earnings management

Reputational capital is acknowledged as an important asset for CEOs who are well-connected. Consequently, they must safeguard it to maintain their reputation among their professional network and prevent all forms of misconduct that might possibly harm their social capital (Lin, 2002). In this regard, Altarawneh et al. (2022) suggest that CEOs improve their strategic decisions more rigorously when they have several external directorships, which in turn reduces their likeliness of engaging in EM. Likewise, Bouaziz et al. (2020) report a significantly negative influence of CEOs having top senior positions in other companies on EM. In contrast, Malikov and Gaia (2021) argue that socially well-connected CEOs are more inclined towards managing earnings, and also concerned about the reputational consequences. Hence, they are more prone to employ classification shifting which is an EM technique (misclassifying income-statement line items). According to Griffin et al. (2021), CEO power and influence increase with the size of their network, which then induces high levels and volatilities of REM as CEOs face comparatively lower personal risk. In the short term, this practice appears to be desirable, as the firm's value increases by reporting a superior trend of earnings and beating earnings benchmarks. However, in the long term, the firm's future performance gets worse due to the REM adjustments made by CEOs with large networks (Griffin et al., 2021). Similarly, Fang et al. (2022) suggest a strong positive effect of CEO network centrality on EM practices when risk-taking incentives are higher.

Based on the above discussion, CEOs with larger networks become more powerful in that they can influence the EM practices to serve their own interests, which is in line with the presumptions of the Type I agency problem. In this regard, the presumptions of upper echelons theory suggest large networks as a CEO managerial trait that may influence organisational behaviour like EM. Accordingly, the subsequent proposition is formed in the light of these arguments and considering the presumptions of the Type I agency problem and the upper echelons theory:

P6 CEOs with large networks have a positive effect on earnings management.

2.4.7. CEO political connection and earnings management

In terms of executives with political connections, firm performance is closely related to their political career and reputation, and therefore, they manage earnings upward to increase the firm's financial performance (Li & Zhou, 2005). Moreover, politically connected executives have strong incentives, like promotion and increasing remuneration, to engage in EM, besides concealing their personal benefits (Li & Zhou, 2005). In this regard, agency theory suggests that CEOs with political connections exploit their power to maximise self-interest at the cost of shareholder interests (Alhmood et al., 2020). According to Li and Zhang (2020), CEOs who conduct political spending through private channels engage more in EM practices compared to political expenses through business channels. This shows that they stand to gain substantial personal benefits with this spending, thereby increasing agency costs. In a study of Chinese listed companies, Chi, Liao, and Chen (2016) reveal that politically well-connected CEOs are involved in higher-level REM. Likewise, Alhmood, Shaari, and Al-Dhamari (2020) report a significant positive effect of CEOs' political connections on REM in Jordanian listed companies.

According to the presumptions of the Type I agency problem, CEOs with political connections practice EM by exploiting their power to serve their own interests. Hence, political connection is a CEO managerial trait that induces organisational behaviour like EM based on the presumptions of upper echelons theory. Therefore, the following proposition is developed based on these arguments and the presumptions of the Type I agency problem and the upper echelons theory:

P7 CEOs with political connections are positively related to earnings management.

2.5. Moderating role of earnings targets

Administrations or governance bodies establish financial targets that pose excessive pressure on the management to fulfil those targets (Evana et al., 2019). In terms of achieving intended targets, management is expected to exhibit top performance in carrying out their operations (Suryandari, Yuesti, & Suryawan, 2019). Effectively and efficiently earning profits for the company by utilising its assets is a measure of management performance (Yendrawati, Aulia, & Prabowo, 2019). Hence, companies use return on assets (ROA) as an indicator of financial targets to determine employee allowances and bonuses (Skousen, Smith, & Wright, 2009). As a result, management is induced to meet financial targets, and failing to achieve these targets would negatively affect their personal benefits, leading managers to practice EM (Jamaludin, Sanusi, & Kamaluddin, 2015). Addressing pressure from the principal, managers take action in the form of EM to achieve these predetermined financial targets and portray the best possible condition of the company, instead of its real condition (Evana et al., 2019; Paino & Iskandar, 2021). According to the presumption of agency theory, agents (executives) are motivated to obtain their economic and psychological needs, like compensation contracts. It is not possible for the principal to monitor the daily activities of the CEO to ensure that they work according to shareholders' wishes (Suryandari et al., 2019).

Paino and Iskandar's (2021) study on Malaysian public-listed manufacturing companies finds a negative but insignificant impact of financial targets on EM. However, Suryandari et al. (2019) show a significant negative effect of financial targets measured by ROA on EM. They add that EM actions are more closely monitored by stakeholders when the company is achieving higher financial targets. In contrast, Brazel, Lucianetti, and Schaefer (2021) find that internal reporting is directly impacted by the pressure of attaining financial targets. Their findings support the idea that the pressure of attaining financial targets is the root of engagement in EM. Likewise, Muljono and Suk (2018) reveal that financially distressed companies engage in accrual-based EM to achieve the required financial targets. Based on these arguments, a conclusion can be drawn that CEOs may be involved in activities related to EM to achieve a predetermined financial performance or target to maximise their self-interest, which is in line with the presumptions of agency theory.

CEOs that manage earnings due to the pressure of attaining earnings targets using their managerial power is in line with the Type I agency problem. In this regard, the presumptions of upper echelons theory suggest organisational behaviour like EM as a reflection of CEO managerial traits which might by influenced by the pressure of attaining earnings targets. Whereas the use of CEO ownership power to manage earnings and attain earnings targets is addressed by the Type II agency problem. Therefore, the proposition on the moderating role of the pressure of attaining earnings targets is formulated based on the above discussions and considering the presumptions of both agency theory and upper echelons theory:

P8 Attaining the pressure of earnings targets significantly moderates the nexus between CEO power and EM.

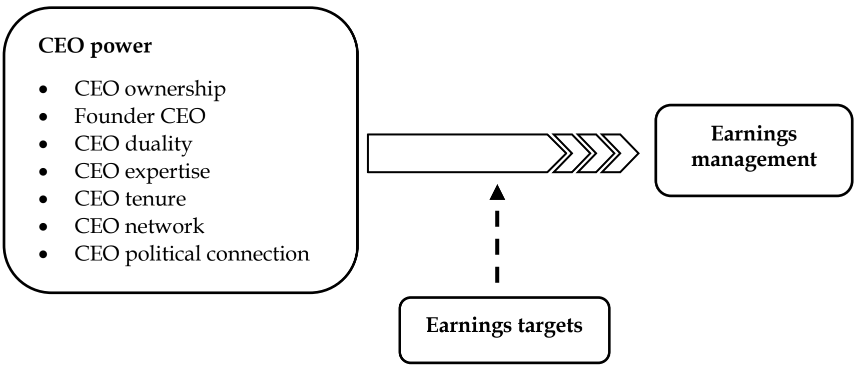
3. Proposed Research Framework and Underlying Theory

Following the extensive review of the literature related to the linkage between CEO power related characteristics, earnings targets, and EM, as well as the presumptions of agency theory and upper echelons theory, a research framework is developed and proposed. The conceptual research framework is shown in Figure 1 below, which exhibits the conceptualisation of the relationship among independent variables (CEO power-related characteristics), a moderating variable (the pressure of attaining earnings targets), and a dependent variable (earnings management). The conceptualisation of the relationship between CEO managerial power and EM considers the presumptions of the Type I agency problem and upper echelons theory. According to the former, CEOs as a part of the management team might execute organisational strategies that prioritise their own interests at the cost of shareholders' interests. Consequently, EM can be addressed as an agency cost. Harmonising the Type I agency problem, the upper echelons theory suggests the influence of CEO managerial characteristics on executing organisational strategies like EM. According to the presumptions of upper echelons theory, CEO characteristics play a crucial role in developing the strategies and outcomes of an organisation. Hence, the moderating effect of earnings targets on the relationship between CEO managerial power and EM is also conceptualised based on the presumptions of Type I agency problem and upper echelons theory.

In terms of conceptualising the relationship between CEO ownership power and EM, the Type II agency problem is considered. According to these presumptions, CEOs that are majority shareholders might utilise their ownership and private information to get the most benefit at the cost of minority shareholders in companies with concentrated ownership. Therefore, the moderating effect of earnings targets on the relationship between CEO ownership power and EM is also conceptualised based on the presumptions of the Type II agency problem.

Accordingly, this paper adopts agency theory (Type I agency problem for CEO managerial power and Type II agency problem for CEO ownership power) to address the issue of CEOs abusing their power to manage earnings, and how earnings targets moderate this. Harmonising the Type I agency problem, the upper echelons theory is adopted to address how CEO managerial power influences EM practices, and how the pressure of attaining earnings targets moderates this influence. Eight propositions are formulated in this paper based on this approach. The propositions on the effect of CEO ownership and founder CEOs on EM are based on the presumptions of Type II agency problem. The propositions on the nexus between CEO managerial power and EM are developed based on the presumptions of the Type I agency problem and upper echelons theory. The proposition on the moderating effect of the pressure of attaining earnings targets over the CEO power and EM nexus is formulated following the presumptions of both agency theory and upper echelons theory.

Figure 1. Proposed Conceptual Framework



The proposed conceptual framework is expected to develop a greater understanding of the ownership and managerial characteristics that increase CEO power to manage earnings more comfortably. Moreover, a deeper understanding of the influence of earnings targets on this issue is also expected to be fulfilled by the framework.

4. Conclusions

Prior studies show the involvement of top management in EM practices, where the CEO, as the most powerful individual, can influence a firm's annual report and affect the FRQ (Altarawneh et al., 2020; Chandren et al., 2021). Addressing the involvement of top management in EM practices, Evana et al. (2019) and Paino and Iskandar (2021) note the undue pressure on management to attain predetermined earnings targets given by the administration or governance body, which might influence the managers to take actions in the form of EM. According to Friedman (2014), a powerful CEO is an individual who has the capability of influencing others' corporate decisions by using his or her empowerment. Therefore, CEOs are regarded as the most influential executives in companies, and their decisions significantly influence EM practices (Agrawal & Knoeber, 1996). Previous studies have examined the effect of CEO characteristics (Altarawneh et al., 2022; Ason et al., 2021; Griffin et al., 2021; Le et al., 2022; Malikov & Gaia, 2021; Wesley et al., 2021) and earnings targets (Dikolli et al., 2021; Mahyuddin, Nahar, & Yusri, 2020; Paino & Iskandar, 2021) on EM practices. Still, there is a limited understanding of the combined effect of the CEO's ownership and managerial power on EM and the influence of attaining the pressure of earnings targets on this effect. There is a lack of empirical work investigating CEOs' characteristics that make them powerful enough to gain unrestricted authority in decision-making by controlling the management's and board's decisions simultaneously to practice EM. Moreover, how the pressure of achieving earnings targets influences powerful CEOs to manage earnings lacks empirical evidence as well.

Consequently, developing an appropriate research framework for the empirical investigation of powerful CEOs practicing EM and the influence of the pressure of attaining earnings targets over this practice becomes important. Accordingly, this paper constructed a conceptual framework addressing the effect of CEO power on EM and the influence of the pressure of attaining earnings targets on this effect. This paper adopted agency theory and upper echelons theory in terms of developing the conceptual framework, moreover, exhibits the harmonisation between the Type I agency problem and upper echelons theory. Eight propositions are formulated in this study based on a comprehensive review of the literature and the presumptions of agency theory and upper echelons theory. Propositions regarding the effect of CEO ownership-related power on EM are formulated in line with the presumptions of the Type II agency problem, while the propositions on CEO managerial power influencing EM are formulated in line with the presumptions of the Type I agency problem and upper echelons theory. In terms of formulating the proposition on the moderating effect of attaining the pressure of earnings targets over the CEO power and EM nexus, the presumptions of both agency theory and upper echelons theory are incorporated.

This proposed study offers several contributions to the growing body of literature on the extent of CEO power and its influence on EM practices. The conceptual research framework provides new insights into the existing literature by explaining the linkages between CEO power, earnings targets, and EM, based on agency theory and upper echelons theory. Moreover, the paper exhibits a harmonious synergy between the Type I agency problem and upper echelons theory. The eight formulated propositions based on the detailed review of literature in this paper have practical implications for Malaysian audit firms and listed companies in shaping their accounting and monitoring strategies respectively. Moreover, Malaysian regulators and standard setters can gain insights in terms of amending the existing MCCG if necessary. The future validation of the eight propositions will assist the Malaysian Accounting Standards Board (MASB) in diminishing EM practices by amending the Malaysian Financial Reporting Standards (MFRSs) accordingly.

This paper is solely conceptual in nature, and the propositions have not been validated using empirical quantitative data. Therefore, the anticipated practical implications are subjected to future empirical validation. Consequently, it requires more work in the future to validate the proposed conceptual research framework. This paper can help researchers in conducting an empirical study based on the proposed conceptual framework and the eight propositions. It is recommended that non-financial Malaysian listed companies are used as a sample based on this proposed framework. According to Al-Duais et al. (2022), banks and other financial institutions follow different financial reporting rules. In terms of measuring EM, the inclusion of AEM in line with Roy and Alfan (2022), and REM in line with Eng et al. (2019), is recommended for the sake of robustness.

Apart from examining the effect of seven individual CEO power-related characteristics on EM, developing a CEO power index using principal component analysis (Seifzadeh et al. 2021) is recommended to examine the extent of CEO power and how it influences EM practices. In terms of measuring the pressure of attaining earnings targets, two conditions need to be fulfilled The first is a firm having a positive change from the previous year's earnings, and the second is meeting or beating that amount of positive change. In this regard, ROA and earnings per share can be used as a proxy for a firm's earnings in line with the meet earnings benchmarks of Mahyuddin, Nahar, and Yusri (2020). Regarding the type of dataset, the panel dataset, which is a combination of both cross-section and time-series data, is recommended for use in the future empirical study. This increases the effectiveness of economic estimations by utilising multiple data points, which minimises collinearity among variables and enhances degrees of freedom in the analysis (Alipour, 2013).

Consequently, further execution of this proposed study will provide the latest scenario of Malaysian CEOs abusing their power to manage earnings and how the pressure of attaining earnings targets moderates this issue in Malaysian listed companies. Existing and potential investors, lenders, and other creditors of selected Malaysian companies will benefit from the empirical findings in terms of decision-making. Moreover, the empirical findings will add to the body of knowledge by explaining the effect of powerful CEOs on EM to enhance the theoretical perspective. Apart from that, the research findings will also reveal the application of agency theory and upper echelons theory among the selected Malaysian listed companies.

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