Earnings Management' Mediating Role in the Relationship between Corporate Governance and Firm Value: An Evidence from Pakistan

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Abstract

This study investigates the mediating effect of earnings restatements in the relationship between corporate governance and firm value. The data employed from 2009 to 2016 which were obtained from financial statements of the non-financial firm listed in the Pakistan Stock Exchange. Theoretically, Earnings Management increases the information asymmetry which increases the information risk and

hence increases the cost of capital. Using principal component analysis, a broader corporate governance index has been developed and for the estimation of nested models, seemingly unrelated regression is used as suggested by (Bion, 2004). The empirical investigation implies some important findings. First, the findings indicate that good corporate governance improves a firm's value. Moreover, a positive and significant relationship is examined between corporate governance and firm's value. The findings propose that if the firm has well structure corporate governance, the firm's performance enhances. Second, the results of this study reveal that good corporate governance reduces earnings management. Further, the findings reported that a negative and significant relationship between corporate governance and earnings management. If the firm has a strong governance structure, there will be fewer chances of manipulation, ultimately earnings management will reduce. In addition, the findings also confirm that there is a negative and significant relationship between earnings management and the firm's value.
Key Words: Earning Restatement; Firm Performance; Corporate Governance

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1. Introduction

The value of the firm has been direct affecting by the earning restatements. The managers of the firms have involved in the high level of earnings management (Leuz, Nanda et al. 2003, Pincus, Rajgopal et al. 2007) and argued that managers receive huge incentives against the higher level of earnings (Watts & Zimmerman ,1990). Earning restatements may take different forms like structuring certain expenses, revenues, and transactions; changing accounting measures; and use of accruals management (Latif & Abdullah, 2015). Due to this opportunistic behavior of mangers, the investors lose confidence in reported earnings (Jiraporn, Miller et al. 2008, Rezaei & Roshani, 2012). Corporate governance plays a substantial role to control the misappropriation of discretionary accounting (Liu & Lu 2007, Chen, Kao et al. 2010). The presence of good corporate governance structure in a corporation may lead to improvements in the professional conduct of business transactions (I. Nabi, 2017) and restrict the opportunities for earning restatement and hence increase the value of the firm (La Porta, Lopez-de-Silanes et al. 2000).

Agency theory establishes the base for the need of good corporate governance to mitigate the agency conflicts between managers and shareholders (Jensen, 1986) and argues that the conflict of interest among managers and shareholder distort the value of the firm. In the past, there are studies regarding corporate governance and earnings management exists (Ali Shah and Butt 2009, Javid and

Iqbal 2010, Javaid and Saboor 2015, Bhat, Chen et al., 2018). Contrast to prior studies, this study is focusing on the implementation of corporate governance reforms and the incidence of earnings statements in the context of an emerging economy like Pakistan. Our study also varies from preceding research where the role of earnings management in a governance-value relationship is overlooked. Theoretically, the earnings restatements result in the asymmetric information which creates the conflict of interest as a result value of firm distorted. Therefore, the influence of earnings restatements as a mediator in the relationship between governance and firm value is distinct from prior studies.

This study has various objectives. First, to investigate the association between corporate governance & earning management. Second, to explore the association between earning restatement and the firm's value. Third, to examine the impact of corporate governance & the firm's value. Fourth, to explore the combined effect of the overall corporate governance mechanism and managerial opportunistic behavior measured through earning management on firm value. This study contributes to the literature in the following ways. First, Prior studies did not find the indirect effect of earnings restatements with corporate governance. Second, this study has contracted the corporate governance index by using the Principal Component Analysis (PCA). A literature review is presented in the next section.

2. Literature Review

2.1 Corporate Governance

The main aim of the corporation is to maximize the shareholder's wealth (Schwartz, 1983). The shareholding model suggests that there is a separation of control and ownership, and thus the firm should operate to maximize the shareholder's wealth. The agency problem arises when the shareholders appoint agents (managers) to control the firms on their behalf. Hence, managers try to achieve their own interests. This model introduced a code of corporate governance which includes all laws and regulations, disciplines and ethics which are necessary to smoothly run an organization (Cadbury, 1992). This model also suggested that constraint-free competition should be encouraged (Letza, Sun et al., 2004).

On the other side, stakeholders are those who affect the corporation or being affected by the corporation (Money & Schepers, 2007). From the stakeholder model point of view, the prime object of an organization is the welfare of all stakeholders. For good organizations, wealth maximization objective comes after the welfare of all stakeholders (Blair, 1995). The stakeholder model suggests that the managers should work to protect the concern of all stakeholders, but not only to protect the interest of shareholders. If the interest of all stakeholders will be protected, there will be "win and win" game. Again, here, the agency problem arises. Managers work for their self-interest and they do not act for shareholder's wealth maximization (Letza, Sun et al., 2004). Just like a shareholding model, it also focuses on the isolation of ownership & management control (Keasey, Thompson et al., 1997). The stakeholder model presents the solution of agency problem in the form of board independence. The management should move from one-tier to two-tier board structure (Muhamad Sori, Mohamad et al,. 2007). In such a case, the companies must have a dual board structure i.e supervisory board and management board.

2.2 Relationship between Corporate Governance and Firm's Value

This study aims to investigate the association between corporate governance and firm's value. Various studies have been conducted in this regard. Theoretically, the effective corporate governance serves as a control mechanism to decrease the agency conflict among managers and shareholders which enhances the value of the firm (Javid & Iqbal 2008, Tariq & Abbas, 2013). Firms with higher shareholders right have higher performance (Gompers, Ishii et al., 2003) This study has been conducted by using the data of IRRC (Investor Responsibility Research Center). They classified the corporate governance variables data into five different groups. Their findings proved that firms with higher shareholders rights have higher performance, higher sales volume & less capital expenditure. Some studies show that increasing board size limits the performance of the firm (Lipton & Lorsch 1992, Jensen, 1993). According to Yermack (1996) there is an inverse relationship between board size and value. Klein (2002) found that there is an inverse relationship b/w audit committee independence and earning management. According to (Anderson, Mansi et al. 2004) companies that have completely independent audit committees have less debt financing costs. There is a strong linkage between CEO effects and firm's value. There are three schools of thoughts about this relationship. According to the Individualist view (Thomas 1988), CEO's policies and decisions have a significant impact on a firm's value

(Smith, Carson et al. 1984, Day & Lord 1988). The choice of decisions made by the CEOs directly affects the firm's performance either in a positive and negative way. And according to the Contextualize perspective, external environmental forces also limit the leadership abilities to influence organizational performance (Brown 1982, Hambrick & Mason 1984, Samuelson, Galbraith et al. 1985, Meindl & Ehrlich 1987, Kuhnert 2000). This school of thought is contrary to the individualist school of thought.

The third school of thought portrays that CEO/performance linkage depends upon some impact of contingent factors (Dalton & Kesner 1985, Norburn 1986, Lubatkin, Chung et al., 1989). The extant literature shows that small firms do not follow a proper governance structure. The small firms do not hire an independent board of directors in their board structure (Begley & Boyd 1986). A clear distinction has been made between the founder CEO and non-founder CEO in the previous literature. It is suggested that the founder CEO should be removed from the active management of the company as early as possible (Levinson 1971).

The CEO duality means the CEO holds two positions and in large firms, the trend of CEO duality is increasing (Dalton & Kesner 1985, Rechner & Dalton, 1991). The present examination of small firms also showed similar results. Berg and Smith (1978), Chaganti, Mahajan et al. (1985) found that there is no difference in the financial performance of a firm as a function of this combined leadership structure (CEO duality). In the case of independent structure, the authors found no impact on shareholders returns, although they found some evidence of higher profit in terms of accounting returns (e.g., return on investment, return on assets, profit margin, etc.) (Rechner and Dalton 1989). Ali Shah and Butt (2009) examined the relationship between various corporate e-governance attributes and cost of equity of 114 listed companies in Karachi stock exchange over the period 2003 to 2007. They use a sample ordinary least square and fixed effect model to test the panel data. They found that there is a relationship between various elements of corporate governance and the cost of equity.

2.3 Relationship between Corporate Governance and Earning Management:

The recent increase in the frequency of earnings restatements rises the importance of corporate governance system and effective supervision of the financial reporting system (Nahar Abdullah, Zalina Mohamad Yusof et al., 2010). Liu and Lu (2007) have explored the association between corporate governance and earning management. They consider the data of corporations listed on China's stock exchange from 1999-2005 and found that firms with a higher level of corporate governance have a lower level of earning management. (Xie, Davidson et al., 2003) argued that board structure and earning management reduce earnings management. Many studies conducted on the association between corporate governance and earning management and in most cases observed a significant relationship between the two variables (Saleh, Iskandar et al. 2005, Chen, Elder et al. 2007, Liu & Lu 2007, Shen & Chih 2007, Lo, Wong et al. 2010, Bekiris & Doukakis, 2011).

In Pakistan, the firm's ownership is commonly concentrated in the hands of a few large stockholders (Javid & Iqbal, 2008). In emerging markets like in Pakistan where ownership is concentrated, they are most sensitive about the corporate scenario. Institutional investors are long-term investors and deter earning management (Kamran & Shah, 2014). Institutional and concentrate ownership have a negative impact on earning management (Kamran & Shah, 2014). If there will be concentrated ownership (Family ownership, Institutional ownership), there will be fewer chances of earning management.

Corporate governance practices are used in constraining the opportunistic behavior of the managers (Krishnan 2003). Information asymmetry occurs due to large size firm. Firm size is a proxy for information asymmetry. Small size firms maintain their personal information more honestly (Lee and Choi 2002).

Ownership structure also plays a vital role in constraining the opportunistic behavior of managers. Institutional investors are major investors and are more able to detect earning management (Balsam, Bartov et al., 2002). Agency problem in family-controlled firms is not as common as in other firms (publicly controlled firms) (Arifin, 2003). Family-controlled firms expropriate the minority shareholders (i.e., public) Family-owned firms are more efficient because there is less monitoring cost in family-owned firms (Fama & Jensen, 1983). Family-controlled firms perform better than public-owned firms (McConaughy, Matthews et al. 2001, Suehiro 2001, Anderson & Reeb, 2003). Arifin (2003) says that institutional-owned firms, family-owned firms, and state-owned firms have less agency problem than public-owned firms because there is less conflict between agent and principal.

Cornett, McNutt et al., (2006) investigated whether there is an association between corporate governance and earning management. This study was conducted at large U.S bank holding companies in the USA. Firm's performance, corporate governance, and earning management are linked to each other. In this study, simultaneous equation method (approach) is used. They found that good corporate governance enhances the performance of the firm (Cornett, McNutt et al., 2006). Financial economists and accountants use latitude accounting rules to manipulate earning figures in different contexts (Cornett, McNutt et al., 2006). Managers manipulate earning figures for their personal benefits. According to Cornett, McNutt et al., (2006) earning management had begun to increase continuously from 1997 and it came to the peak level in 2002. To achieve specific advantages, managers do opportunistic earning management.

Managers use different techniques & mechanisms to manipulate earning figures. Although earning management can not completely eliminate, however it can be reduced by well-defined corporate governance mechanisms (Warfield, Wild et al. 1995, Beasley 1996, Dechow, Sloan et al. 1996, Klein 2002). Opportunistic earning management is the initial stage of manipulation in which manipulation is done for the sake of enhancing bonus income (Healy 1985, Healy, Kang et al. 1987, Gaver, Gaver et al. 1995, Holthausen, Larcker et al. 1995, Guidry, Leone et al. 1999). The recent studies show that earning management is done to affect the stock price and in return agent's wealth. According to Burns and Kedia (2006) corporations whose chief executive officers have large prominent positions are probably more likely to file earning restatements. Earning restatement is mostly observed in those firms whose managers' interest is closely tied-up with stock options.

Board characteristics show a lower level of discretionary accruals (Klein, 2002). Institutional investors can constrain the management's opportunistic behavior by corporate monitoring (McConnell & Servaes 1990, Nesbitt 1994, Smith 1996, Del Guercio & Hawkins 1999, Hartzell & Starks, 2003). Large institutional investors can monitor firms in a better way. The previous studies conclude that the corporate monitoring and practices by institutional investors force management of the corporations to focus more on corporate governance and less on opportunistic behavior. If monitoring is enhanced by the institutional investors, there are fewer chances of discretionary accruals.

2.4 Relationship between Earning Management and Firm's Performance:

Earning management is the most severe and hot topic of research nowadays. Almost the management of every corporation does earn manipulation (Armstrong, 1993). When managers do manipulation in the earning figures, earning management occurs (Xiong, 2006). Nature of earning management differs from one country to another country. Earning management practice may be used as a tool to attract new investors and to win the confidence of the market (ALGHAMDI & Ali, 2012). According to Daniel, Denis et al., (2008) corporations manipulate earning figures in order to meet expected levels of the dividend. They conducted this study by taking a sample of 1500 firms from period 1999-2005. The results present that this is a positive effect of earning management on firm's value.

A comparative study is conducted by Glaum, Lichtblau et al., (2004) by taking a sample of U.S firms and German firms. There were 38714 U.S firms and 3524 German firms. The authors found that both the German and American firms manipulate earning figures in order to avoid losses and a decrease in profit. Both aspects of earning management are observed. (i) Beneficial (ii) Opportunistic. Managers manipulate earning figures in order to present a favorable image of the company in front of the shareholders (Dichev, Graham et al., 2013). Brazilian companies engage in the manipulation in order to avoid reporting losses and enhance performance (Martinez, 2005). When the companies present a favorable image, it helps them to get finance from financial institutions and the general public easily (Kamel & Elbanna, 2009).

2.5 Mediating role of Earnings Management in the CG-V relationship

Studies like Gill, Biger et al., (2013), Mellado-Cid, Jory et al., (2018) found the inverse relationship among earnings management and firm's value and it is argued that better corporate governance deters the opportunistic behavior of managers which have a positive effect on the value of the firm. It is also documented that more intense the earnings restatements, more adverse influence on the firm value. Keeping in view the literature, we expect that the earnings management amplifies the corporate governance and value of firm relationship and works as a mediator.

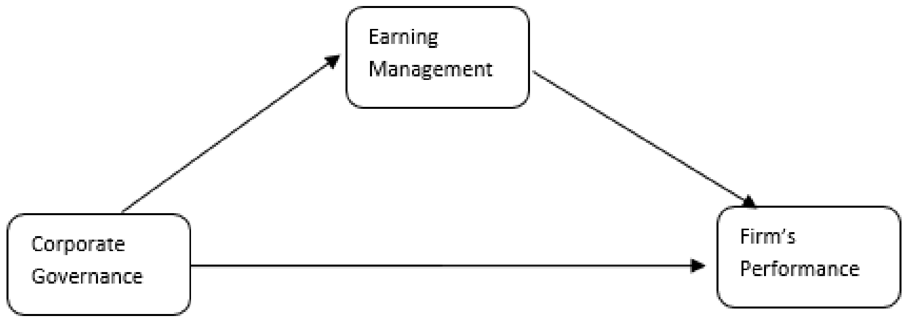

Figure-2.1

3. Research Methodology

This study used the 129 non-financial company's data over the time period of 2009 to 2016. The data were obtained from the Pakistan Stock Exchange (PSX). Firms with incomplete data are excluded from the study. Also, financial firms due to the different regulatory framework are not taken into account.

3.1 Dependent Variables:

The firm values are used as dependent variables. Return on assets and Tobin's Q are used as a proxy for the value of the firm. Return on asset is measured by Net profit after tax / Total assets. and Tobin's-Q is measured by the following formula (Shah & Hussain, 2012).

Tobin^' s-Q Ratio=(Total Market Value of Firm)/(Total Asset Value)

3.2. Mediating Variable (Earning Management)

Accrual-based earnings management is considered to measure the earnings management. Following Ali, A., and Zhang, W., (2015) the (DA) discretionary accruals are taken as the dimension of Earnings-restatement in this study. First total accruals are calculated as under:

$$Accruals_i = (\Delta CA_i - \Delta Cash_i) - (\Delta CL_i - \Delta STD_i - \Delta TP_i) - DEP_i$$

These abnormal accruals are known as discretionary accruals, which are computed from the cross-sectional modified Jones model. (Jones 1991) as under:-

$$\frac{Accruals_i}{Assets_{t-1}} = \beta_0 \frac{1}{Assets_{t-1}} + \beta_1 \frac{\Delta Rev_t - \Delta Rec_t}{Assets_{t-1}} + \beta_2 \frac{PPE_t}{Assets_{t-1}} + \varepsilon_{it}$$

The residuals form the above equation is considered as discretionary accruals (da).

3.3. Independent variable

Corporate governance index is used as an independent variable. Following Ammann, Oesch et al., (2011) Sarkar, Sarkar et al., (2012) and Aldamen and Duncan (2016), corporate governance index is developed based on ten elements i.e. CEO Duality, Managerial Ownership, Institutional Shareholding, Ownership Concentration, Board Size, Board Independence, Board Meetings, Audit Committee Independence, Audit Committee Meetings and audit quality.

3.4. Control Variables

To avoid unfair consequences, we added several control variables, whose impact on the firm's performance, earning management and corporate governance is well recognized by the earlier study. Concretely, in our investigation, we defined firm size, leverage, and firm growth as follows.

3.4.1. Firm Size (SIZE)

Firm size is calculated by the logarithm of the total assets. (Prior, Surroca et al., 2008).

3.4.2. Leverage

Leverage is the risk of debt of default and it is measured as the ratio of debt to equity. Different variables commonly used in earlier studies are the rank of firm leverage (A.Ateeq, S.Khurshaid et al., 2017). It shows debt or non-compliance risk (Mahoney, LaGore et al., 2008)

As with the size of the company, no agreement exists concerning the impact of the leverage level on financial reporting quality. But it was found that debt ratios are the main determinants of earning management changes (Martínez-Ferrero, 2014).

3.4.3. Company growth (GWTH)

The development of the organization (GWTH) as calculated by the percentage change in revenue or sales from the preceding year (t- 1) to year test period (t) (Houqe, van Zijl et al., 2012).This variable is expected to have a positive impact on earnings management (Martínez-Ferrero, 2014).

3.8. *Econometric Equations:*

The relationship between Corporate Governance & Earning Management:

$$EM_{i,t} = \alpha_{i,t} + \beta 1OCG_{i,t+}\beta 2FS_{i,t} + \beta 3LVG_{i,t} + \beta 4GR_{i,t} + \beta 5CAI_{i,t} + \varepsilon_{i,t}$$

The relationship between the Firm's Performance & Earning Management:

$$FP_{i,t} = \alpha_{i,t} + \beta 1EM_{i,t} + \beta 2FS_{i,t} + \beta 3LVG_{i,t} + \beta 4GR_{i,t} + \beta 5CAI_{i,t} + \varepsilon_{i,t}$$

The relationship between Corporate Governance & Firm's Performance:

$$FP_{i,t} = \alpha_{i,t} + \beta 1OCG_{i,t} + \beta 2FS_{i,t} + \beta 3LG_{i,t} + \beta 4GR_{i,t} + \beta 5CAI_{i,t} + \varepsilon_{i,t}$$

Combined Effect of Corporate Governance & Earning_Management on Firm's Performance:

$$FP_{i,t} = \alpha_{i,t} + \beta 1OCG_{i,t} + \beta 2EM_{i,t} + \beta 3FS_{i,t} + \beta 4LGR_{i,t} + \beta 5GR_{i,t} + \beta 6CAI_{i,t} + \varepsilon_{i,t}$$

Where,

EM = Earning Management OCG = Overall Corporate Governance (Index)

FS = Firm Size LVG = Leverage GR = Growth

4. Empirical Results

4.1 Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min.	Max.
Da	1098	0.0533495	0.1301654	-0.6473839	0.57644856
Roa	1102	0.0536482	0.1256182	-0.5059655	0.4971042
Tq	1082	1.11345	0.6152924	0.1333646	9.632635
Fs	1104	15.10444	1.608615	8.71029	19.53942
Lvg	1090	0.1764882	0.1706429	0	0.9875482
Cai	1102	0.550173	0.2132803	0.0100338	0.999504
Gw	1096	1.318369	2.417626	0.0038906	20.90544
Ocg	1097	14.3721	3.073116	7.522564	23.85534

4.2 Correlation Matrix of CG Input Variables

Table 4.2 shows the correlation matrix of CG input variables. The corporate governance input variables are duality, managerial ownership, institutional shareholding, ownership concentration, the board size, board independence, board meetings, audit committee independence, audit committee meetings, and audit quality. A high positive correlation is noticed between audit committee independence (aci) and board independence (bid) that is 0.3674. Table 4.2 presents the pairwise correlation between the corporate governance variables.

Table 4.2 PairWise Correlation Matrix of CG Input Variables

	dul	Mgr	Inst	oc	bs	bid	bm	aci	acm	aq
Jul	1.0000									
mgr	0.1725	1.0000								
inst	-0.0556	-0.2251	1.0000							
oc	-0.0576	-0.1753	-0.0963	1.0000						
bs	-0.1043	-0.1348	0.2155	-0.0732	1.0000					
bid	-0.0536	-0.2212	0.0236	0.0824	0.0481	1.0000				
bm	-0.0163	0.0222	-0.0832	-0.0162	0.0512	-0.1117	1.0000			
aci	-0.0177	-0.2046	0.0978	0.0998	0.1036	0.3674	-0.1365	1.0000		
acm	-0.0155	-0.0428	-0.0703	0.0841	-0.0053	0.0242	0.0926	0.0413	1.0000	
aq	-0.2363	-0.2731	0.0703	0.1080	0.1080	0.1042	0.0692	0.1206	0.1246	1.00

4.3 Construction of Overall Corporate Governance Index by Using PCA

Principal component analysis usually captures the maximum variation in the data. The principal component analysis is formulated by Pearson. The principal component analysis takes correlated figures common. The number of components is equal to the number of variables. Each principal component has the greatest possible variance. It ignores the correlated values of variables and considers the maximum variation of data (variables).

In table 4.3 the component number, Eigenvalues, variance (difference), cumulative Eigenvalue and total variance is given. The components are duality, managerial ownership, institutional shareholding, ownership concentration, the board size, board independence, board meetings, audit committee independence, audit committee meetings, and audit quality. Only those Eigenvalues will be considered whose values will be greater than one. The sum of cumulative

Eigenvalues should be equal to the number of principal components (Kaiser, 1960).

Table 4.3 Principal Component Analysis

Component	Eigen Value	Difference	Cumulative Eigen Value	Total Variance	Cumulative Variance
Comp 1	1.94064	0.631075	1.94064	0.1941	0.1941
Comp 2	1.30957	0.0246077	3.25021	0.1310	0.3250
Comp 3	1.28496	0.268646	4.53517	0.1285	0.4535
Comp 4	1.01632	0.129178	5.55149	0.1016	0.5551
Comp 5	0.887139	0.0167857	6.438629	0.0887	0.6439
Comp 6	0.870353	0.0995813	7.308982	0.0870	0.7309
Comp 7	0.770772	0.0583903	8.079754	0.0771	0.8080
Comp 8	0.712381	0.0818352	8.792135	0.0712	0.8792
Comp 9	0.630546	0.0532283	9.422681	0.0631	0.9423
Comp 10	0.577318	.	9.999999	0.0577	1.0000

Table 4.4 *Principal Components (Eigen Vectors)*

Variable Name	**Comp 1**	**Comp 2**	**Comp 3**	**Comp 4**	**Comp 5**
Duality	-0.2803	-0.3381	-0.1001	0.3953	0.6166
Managerial Ownership	-0.4893	-0.0392	0.0231	0.2752	-0.3374
Institutional Shareholding	0.2671	0.1350	-0.5381	0.0238	0.2128
Ownership Concentration	0.1885	-0.1496	0.5038	-0.3840	0.4120
Board Size	0.2886	0.3491	-0.3171	0.3295	0.0526
Board Independence	0.3856	-0.4196	0.0798	0.2210	-0.1023
Board Meetings	-0.0880	0.4924	0.2515	0.2386	0.4754
Audit Committee Independence	0.4090	-0.4052	0.0085	0.3135	-0.0027
Audit Committee Meetings	0.0507	0.1345	0.4797	0.5543	-0.1918
Audit Quality	0.4070	0.3477	0.2140	-0.0103	-0.1224

TABLE 4.4 *PRINCIPAL COMPONENTS (EIGEN VECTORS)*

Variable Name	**Comp 6**	**Comp 7**	**Comp 8**	**Comp 9**	**Comp 10**
Duality	0.1489	0.1117	-0.4639	-0.0944	0.0447
Managerial Ownership	-0.012	0.2932	0.1589	0.3402	0.5847
Institutional Shareholding	0.4474	-0.3685	0.2200	0.1640	0.4047
Ownership Concentration	0.2732	0.3725	0.2993	0.0471	0.2567
Board Size	-0.045	0.6883	0.1838	-0.2531	-0.0961
Board Independence	-0.387	-0.1665	0.0827	-0.4685	0.4535
Board Meetings	-0.497	-0.2697	0.2254	0.1623	0.0801
Audit Committee Independence	-0.124	0.0557	0.1182	0.6738	-0.2891
Audit Committee Meetings	0.5365	-0.2080	0.1306	-0.1856	-0.1505
Audit Quality	0.0169	0.0801	-0.7065	0.2190	0.3144

5. $Ocg = (-0.2803 - 0.3381 - 0.1001 + 0.3953) * dul + (-0.4893 - 0.0392 + 0.0231 + 0.2752) * Mgr + \cdots + (0.407 + 0.3477 + 0.2140 - 0.0103) * aq$

Table 4.5 PairWise Correlation Matrix of Dependent and Independent Variables

Variable	da	Roa	roe	qt	fs	Avg	can	gw	Aug
da	1.0000								
roa	0.0196	1.0000							
tq	0.0480	0.2342	0.1504	1.0000					
fs	-0.0309	0.1619	0.1663	-0.0105	1.0000				
lvg	0.0129	-0.3124	-0.0488	0.0157	0.0198	1.0000			
cai	0.0049	-0.2762	-0.1371	-0.2147	-0.0206	0.5324	1.0000		
gw	-0.0421	0.4166	0.1337	0.5038	0.0052	-0.3154	-0.2687	1.0000	
ocg	0.0181	0.1584	0.0460	0.0445	0.1788	-0.0546	-0.0244	0.0070	1.0000

Table 4.5 shows the correlation matrix of dependent and independent variables. The variables are discretionary accruals, return on assets and Tobin's Q, firm size, growth, leverage, and capital intensity. A high positive correlation is noticed between capital intensity and leverage that is 0.5324 other variables result described there is no serious multicollinearity issues.

4.6 Impact of Overall Corporate Governance on Earnings Management:

		Coef.	**Std.Err.**	**z**	**p>|z|**
	ocg	-.0020921	.0005948	3.52	0.000
da	**fs**	.0032698	.0006802	4.81	0.000
	cai	-.0330929	.0104269	-3.17	0.002
	gw	-.0048004	.0008314	-5.77	0.000
	lvg	.0021098	.012888	0.16	0.870

In table 4.6, the value of the coefficient of ocg is -0.0020. It is a negative value and denotes that there is an inverse relationship between overall corporate governance and earnings management. As p-value of ocg is less than 0.05 (5%) representing that there is a negative and significant relationship between corporate governance and earnings management. The coefficient value of firm size is positive that is 0.0033, so there is a positive association between firm size and earnings management and the p-value of fs is less than 0.05, so there is a positive and significant association between firm size and earnings management.

The results given in table 4.6 indicate that the value of the coefficient of capital intensity is -0.0330 indicating that there is a negative relationship between capital intensity and earnings management. But p-value shows that it is a significant variable having some impact on earning managements. Under such circumstances, we may conclude that there is a negative significant relationship between these two variables. The data given in table 4.6 reveals that the growth variable seems to have a negative impact on earnings management. It indicates that there is an inverse relationship between growth and earnings management. P-Value is less than 0.05. Here we can conclude that there is a negative and significant relationship between growth and earnings management. The value of the coefficient of leverage is 0.0021 which is insignificant.

4.7 Combined Effect Of Earnings Management and Corporate Governance on ROA:

		Coef.	Std.Err.	z	p>|z|
	da	-.0555169	.0102771	5.40	0.000
road	**ocg**	.0047263	.0004845	9.76	0.000
	fs	.0009366	.0005713	1.64	0.101
	cai	-.0637094	.0087605	-7.27	0.000
	gw	.0161992	.0006731	24.07	0.000
	lvg	-.0813219	.0104208	-7.80	0.000

Table 4.7 describes that the value of the coefficient of discretionary accruals is -0.555. It is a negative value and denotes that there is a negative relationship between discretionary accruals (earnings management) and return on assets (ROA)/firm's value. As p-value of discretionary accruals is less than 0.05 representing that there is a negative and significant relationship between discretionary accruals and firm's performance. The coefficient value of ocg is positive that is 0.0047. It represents that if overall corporate governance will be high, the firm's performance will be high. As p-value of ocg is less than 0.05, so we can say that there is a positive and significant relationship between corporate governance and firm's value. Under such circumstances, we conclude that here alternate hypothesis (There is a positive impact of corporate governance on firm's performance) is accepted and the null hypothesis is rejected. So here we can say that if corporate governance will be high, the firm's performance will be high. If earnings management will be low the firm's value will be high so we conclude that the combined effect of overall corporate governance and earnings management will ultimately increase the firm's value

4.8 Combined Effect of Earnings Management and Corporate Governance on Tobin's Q:

		Coef.	**Std.Err.**	**z**	**p>|z|**
	da	-.1993377	.0373831	5.33	0.000
tq	**ocg**	.0014265	.0017076	0.84	0.403
	fs	.0632273	.0020023	31.58	0.000
	cai	-.5231216	.0311034	-16.82	0.000
	gw	.1971575	.0025269	78.02	0.000
	lvg	1.018961	.0378472	26.92	0.000

Table 4.8 indicates that the value of the coefficient of discretionary accruals is -0.1993 indicating that there is an inverse relationship between discretionary accruals (earnings management) and Tobin's Q (firm's performance). If earnings management will less, the firm's performance will increase. As p-value of discretionary accruals is less than 0.05 that is 0.000, so here, we will accept the alternate hypothesis that there is a negative and significant association between earnings management and the firm's value. The data given in the second row shows that there is a positive relationship between overall corporate governance and firm's value. Here Tobin's Q is used to measure a firm's value. Tobin's Q is a market-based measure. The value of the coefficient of overall corporate governance is 0.0014 indicating that if corporate governance will be high, the firm's performance will increase. As p-value of OCG is less than 0.05 indicating that there is a significant relationship between the two variables.

The results show that if corporate governance will be high, the firm's performance will be high. The previous literature shows that many studies have been conducted on the relationship between corporate governance and firm's value. But the present study is an effort to mediate this relationship through earnings management. Here, we can say that if corporate governance will be high, there will be fewer earnings management in the corporations, and ultimately the firm's performance will increase. Firm size, capital intensity, growth, and leverage are the control variables showing their relationship with the firm's value.

4.9 Indirect effect

Using nonlinear combination, following the channel effect of overall corporate governance on the value of the firm Earnings management role in the corporate governance and value of the firm relationship is examined in table 4.9. The findings show that the earnings management negatively mediate the corporate governance and value of firm association. It means that better corporate governance deters the opportunistic behavior of managers and information gap among the mangers and shareholders is controlled. Due to the lesser information asymmetry, the agency conflicts minimized and the value of the firm is increased.

Table 9

Channel	Value of firm	Channel effect
Earnings Management (da)	ROA	-0.0918 (0.0000)
Earnings Management (da)	Tobin's Q	-0.05135 (0.01342)

The results illustrate in table 1 reveal that microcredit has a constructive impact on overall poverty mitigation of poor people as the overall model is statistically significant having Chi-square value 28.890, and $P<0.05$. Further, the results reveal that microcredit has a significant relation with agriculture output with an overall statistically significant model having a Chi-square value of 21.088, and $P<0.05$. Moreover, the results indicates that there is a positive relation between micro credit and improvement in household conditions, (Chi-square 51.917, $P<0.05$), constructive significant association between Social & Religious spending and microcredit (Chi-square 43.625, $P<0.05$), positive significant association between micro credit and improved health care (Chi-square 24.846, $P<0.05$), positive relationship is found between micro credit and women empowerment (Chi-square 33.289, $P<0.05$), constructive association between women skill development and microcredit (Chi-square 47.944, $P<0.05$), positive significant association between micro credit and improvement in women education (Chi-square 24.846 and $P<0.001$), positive significant association between family health & living standards and microcredit (Chi-square 24.846, $P<0.05$), positive significant association between micro credit and development of businesses (Chi-square 28.890, $P<0.05$), positive significant association between life safety measure and microcredit (Chi-square 47.111, $P<0.05$) and there is also constructive association between micro credit and increase in assets (Chi-square value 28.890, $P<0.05$).

6. Conclusion

This study is an attempt to mediate the relationship between corporate governance and firm’s performance through earning management. Various studies have been conducted on the relationship between corporate governance and firm’s value but the role of earning management in the governance-value association is overlooked in the existing studies. So, this study is an attempt to fill this gap. The findings of the study revealed that good corporate governance reduces the earning management which leads to an increase in the firm’s performance. Well, corporate governance indicates better control of the manager’s. The proper control decreases the likelihood to involve the managers in manipulations, so the chances of the earning management ultimate decreases and the firm performance improve.

Further, there is a negative and significant relationship between corporate governance and earning management. It indicates that good corporate governance decreases earnings management and bad corporate governance increases earnings management. Moreover, there is a negative and significant relationship between earnings management and the firm’s performance. The results revealed that the high tendency of earnings management decreases the firm performance and low tendency of earnings management improve the firm performance. This study has various limitations. First, this research used only a few measures of a firm’s financial performance. Second, the collection of data, we have faced many hurdles because some companies do not provide full information about their finances. Third, this study data from the non-financial sector has been taken. Although this study provides a good base for mediation between corporate governance and firm’s performance. In future researcher can be used earning management as mediator and moderator at the same time. The time frame should be enhanced to get better results

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