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Investors perception to earnings management: Evidence from Malaysia

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***Abstract*---**This study examines the effect of earnings management on firm value from investors' perspectives in the Malaysian market. Using panel data from 26 non-financial firms listed on the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) between 2018 and 2022, discretionary accruals estimated through the Modified Jones Model represent earnings management, while Tobin's Q measures firm value. Multiple regression results reveal a significant negative relationship between earnings management and firm value, indicating that investors view such practices as signals of reduced transparency and weak governance. Return on assets and leverage positively influence firm value, whereas firm size and age exert negative effects. These findings suggest that investors in Malaysia are sensitive to earnings quality and penalize opportunistic reporting behavior. The study contributes empirical evidence from an emerging market context under Malaysia's evolving corporate governance framework.

***Keywords*---**Earnings Management, Firm Value, Bursa Malaysia, Investor Perception.
***JEL Code*---** M41, G32, G14, M48.

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1. Introduction

1.1 Background of the Study

Earnings management remains one of the most debated topics in corporate finance and accounting research. It involves managerial discretion in financial reporting aimed at influencing reported earnings within the boundaries of accounting standards. While some researchers argue that earnings management can convey useful private information to investors—reflecting an efficient perspective—others perceive it as a form of manipulation that distorts financial performance and misleads stakeholders, reflecting an opportunistic perspective (Sitraselvi, 2016; Jiraporn, Miller, Yoon, & Kim, 2008; Shin-Ae & Taejoong, 2019).

In emerging markets such as Malaysia, where investors rely heavily on financial statements to make informed decisions, earnings management practices can significantly shape investor perception and market valuation. The revisions of the Malaysian Code on Corporate Governance (MCCG) in 2017 and 2021, coupled with amendments to the Companies Act in 2019, underscore the national emphasis on transparency, accountability, and ethical reporting. Yet, the question remains: how do investors perceive earnings management, and to what extent does it influence firm value?

1.2 Problem Statement

Despite extensive global research on the relationship between earnings management and firm value, empirical findings remain inconsistent. Some studies report a positive relationship, suggesting that earnings management helps signal stability and reduces information asymmetry (Chaney & Lewis, 1995; Subramanyam, 1996, as cited in Burgstahler & Dichev, 1997; Ning, 2006), while others find negative or insignificant effects, emphasizing its opportunistic nature and harmful impact on firm value (Tang & Chang, 2015; Ahmed & Ali, 2022; Tulcanaza-Prieto & Lee, 2022). Several studies also reveal mixed or context-dependent results, showing that the impact of earnings management varies according to corporate governance strength, financial condition, and market environment (Abbas & Ayub, 2019; Nobakht & Acar, 2021; Wardani & Hermuningsih, 2013).

In Malaysia, limited evidence exists regarding how investors react to earnings management practices, especially within the context of large listed firms under enhanced governance frameworks. This gap motivates the present study, which seeks to determine whether earnings management affects firm value as perceived by investors in the Malaysian capital market.

1.3 Research Objectives

This study aims to:

1. Examine the impact of earnings management on the firm value of companies listed on Bursa Malaysia.
2. Determine how investors perceive earnings management practices in assessing firm value.

3. Contribute to the understanding of financial transparency and governance in emerging markets.

1.4 Significance of the Study

This study contributes both theoretically and practically. Theoretically, it adds to the body of knowledge on the interaction between earnings management and firm valuation, specifically in an emerging economy context (Koseoglu & Almeany, 2020; Mukhtaruddin, Relasari, & Yuniarti, 2014; Santana & Rezende, 2016). Practically, it informs investors, regulators, and policymakers about how earnings management practices influence market perceptions and firm valuation. The findings provide evidence to strengthen corporate governance mechanisms and enhance investor protection in Malaysia.

1.5 Structure of the Paper

The remainder of the paper is structured as follows: Section 2 reviews the relevant literature on earnings management and firm value; Section 3 describes the research design, data, and methodology; Section 4 presents and discusses the empirical results; and Section 5 concludes the study and provides recommendations.

2. Literature Review

2.1 Earnings management

Earnings management is a two-sided phenomenon — a double-edged sword — and making a premature judgment about it as being either beneficial or harmful oversimplifies its complexity. Sitraselvi (2016) argues that classifying earnings management as good or bad should depend on whether it is efficient or opportunistic, rather than on a superficial evaluation. The way companies manage their earnings affects their sustainability and prosperity. The continued survival of firms also reflects the alignment between the interests of managers and shareholders, which helps keep agency costs to a minimum.

Earnings management is classified as a beneficial (positive) practice when it benefits the company and adds to its value, as managers provide private information to investors to bridge the information asymmetry gap, thereby improving the ability to predict the company's future performance.

On the other hand, harmful earnings management is considered opportunistic or negative when it benefits only managers or negatively affects the company's performance, thereby increasing the firm's agency costs. Opportunistic earnings management reflects managerial utility maximization and may involve manipulating reported profits for personal gain. This form of earnings management is associated with a negative effect on firm value, as it can mislead investors about the firm's financial health, which is then reflected in a decline in firm value as a reaction from investors (Sitraselvi, 2016, pp. 53–54).

2.2 Firm Value

The concept of value in economics represents a measurable attribute that gains meaning when linked to the firm, which is an organized entity aiming to generate profit and maximize shareholder wealth. According to Anderson (2013), value is not inherent but assigned and measurable. Firm value reflects how effectively a company creates wealth for shareholders, often indicated by its stock price (W.C. Nugroho & Agustia, 2017). High and stable profits signal good performance, encouraging investors to value the firm more highly (Mukhtaruddin et al., 2014).

Firm value integrates multiple views: it mirrors investment efficiency, sound financial decisions, and investor confidence (Lestari & Armayah, 2016; Rahmantari et al., 2019). From a financial perspective, it equals the present value of expected future cash flows discounted by the cost of capital (Derindere Köseoğlu, 2023). Structurally, it represents the total market value of debt and equity, not just shareholders' equity (Koseoglu & Almeany, 2020).

Finally, the researcher concludes that firm value is a measurable attribute reflecting investor perceptions and expectations about the company's ability to generate continuous profits and sustain its operations. It is therefore a variable influenced by multiple internal and external factors, hence raising the question: What are the key determinants that impact firm value?

2.3 The impact of earnings management on the firm value

According to Sitraselvi, the dual nature of earnings management underscores its twofold impact on firm value. Efficient earnings management acts as a signal of the firm's condition and contributes positively to its value. Conversely, opportunistic earnings management, driven by self-interest, has a detrimental impact on firm value. In this context, numerous studies have been conducted to explore this effect. This literature review classifies these studies into four groups:

1. Studies indicating a **positive impact** of earnings management practices on firm value;
2. Studies showing **both positive and negative effects**;
3. Studies showing **no effect**; and
4. Studies indicating a **negative impact only**.

A study aimed at developing a comprehensive model explaining the relationship between earnings management and firm valuation was conducted by Chaney and Lewis (1995), who examined the effect of earnings management practices on high-value firms. Motivated by compensation contracts, it was observed that management in such firms engaged in income smoothing practices. Using a valuation model under information asymmetry, the results showed that earnings management practices positively influenced market perceptions of firm value.

Subramanyam (1996) supported this perspective, revealing that discretionary accruals, on average, enhance the ability of reported earnings to reflect the economic value of the firm. Similarly, Burgstahler and Dichev (1997) confirmed a positive impact of earnings management on firm value through several key observations. They argued that the value of stakeholders' implicit financial

interests is sensitive to information about the company's financial condition. The level of earnings management aimed at avoiding losses is economically significant, particularly given that typical earnings levels are around 7% of the market value of equity. The authors added that even earnings management equal to 0.5% of market value is economically meaningful, with estimates indicating hundreds of other instances where earnings management changed profits by more than 1% of market value, thereby affecting firm value (Burgstahler & Dichev, 1997, p. 122).

Ning (2006) presented a value-maximization perspective, suggesting that earnings management helps reduce risk. The author argued that, rather than misleading investors, earnings management aids in forming rational expectations, benefiting from reduced income volatility, and thus supporting the association between reported earnings and firm value. Olaoye and Akinleye (2020) provided empirical evidence of a positive relationship between accrual-based earnings management and firm value. After analyzing data from industrial firms listed on the Nigerian Stock Exchange, they found that earnings management increased firm value by 38.31%.

While some studies point to a positive impact, others report a dual (mixed) effect of earnings management. For instance, Abbas and Ayub (2019) analyzed the relationship between earnings management and firm value among non-financial Pakistani firms listed between 2003–2017. Their findings revealed a positive relationship between both real and accrual-based earnings management and firm value. However, the nature of the relationship varied — it was opportunistic (negative) in financially distressed firms and non-opportunistic (positive) in healthy firms. Interestingly, accrual-based earnings management had a more pronounced effect than real earnings management (Abbas & Ayub, 2019, p. 103).

Nobakht and Acar (2021) also found evidence of the dual nature of earnings management's impact on firm value. Analyzing data from 180 firms listed on the Tehran Stock Exchange, they found that both accrual-based and real earnings management (through production costs and abnormal operating cash flows) had a positive and significant effect on firm value. However, there was no significant relationship between real earnings management via abnormal discretionary expenses and firm value. Nonetheless, when firm value was measured by economic value added (EVA), the effect of both accrual and real earnings management (via production costs and abnormal cash flows) became negative and significant, whereas real earnings management through abnormal discretionary expenses showed a positive and significant effect (Nobakht & Acar, 2021, p. 568).

In Nigeria, Folajimi et al. (2023) found mixed results regarding the impact of earnings management on firm value. Using multiple earnings management indicators and multiple regression analysis, they found that variables such as trade receivables to daily sales, asset quality, leverage, and asset growth had a positive effect, while others — such as gross profit margin, depreciation provisions, and administrative expenses — had a negative.

In Malaysia, Wardani and Hermuningsih (2013) examined the impact of both accrual-based and real earnings management on firm value. Using multiple regression analysis on data from 34 firms listed on the Bursa Malaysia, they

found that accrual-based earnings management significantly affected firm value, whereas real earnings management did not show a significant effect (p. 7).

Moving to studies with inconclusive results, in the United States, Coles et al. (2006) examined the period between financial statement announcements and their restatements. Their analysis of market reactions to abnormally low discretionary accruals revealed a minimal impact on stock prices — and hence on firm value — suggesting limited explanatory power over stock performance across time frames, even during earnings announcement windows, and no clear effect on firm value. This finding aligns with Darmawan et al. (2019), whose five-year study of Indonesian manufacturing firms found that accrual-based earnings management had no significant impact on firm value.

Although some studies found no clear relationship, others identified a clearly negative effect. In Taiwan, Tang and Chang (2015) examined the interaction among corporate governance, earnings management, and firm performance. Using a dynamic panel regression model, they found a significant negative effect of discretionary accruals (DA) on return on assets (ROA) and Tobin's Q for firms with weak governance systems. This implies that in such environments, managers are more likely to exploit accounting discretion, leading to lower firm performance and value. Interestingly, discretionary accruals had a positive effect on firm performance and value in strongly governed firms. Similarly, Ahmed and Ali (2022) found a significant negative effect of earnings management on the value of Nigerian oil and gas firms, attributing this to investors' ability to detect manipulative practices, resulting in lower firm value. These results support the notion that transparency and integrity in financial reporting help preserve firm value (p. 104).

Tulcanaza and Lee (2022) broadened the scope by including real earnings management (REM) activities and found that practices such as price discounts, lenient credit terms, and overproduction significantly and negatively affect firm value. Similarly, Potharla et al. (2021) investigated the impact of real earnings management on the sustainability of firm value. Analyzing non-financial firms listed on the Indian Stock Exchange from 2011 to 2018, they found that abnormal reductions in discretionary expenses had a significant negative effect on firm value sustainability. Moreover, when real earnings management was used to achieve zero earnings — meaning that the company deliberately managed its financial results to report no profit — both abnormal increases in operating cash flows and abnormal reductions in discretionary expenses also had negative impacts on firm value sustainability (p. 323).

From this review of previous empirical studies, it is evident that there is no consensus regarding the nature of the relationship between earnings management and firm value. Most studies indicate that earnings management has either a positive or negative impact on firm value. Therefore, it is difficult to predict the expected direction of this relationship. Based on this, the following hypothesis can be formulated:
H_4: There is a statistically significant impact of earnings management on the value of firms listed on the Main board of Bursa Malaysia.

3. Methods and materials

3.1 Study Population, Sample, and Period

The population of this study includes all large-cap companies listed on Bursa Malaysia between 2018 and 2022. These companies were chosen because they are the most profitable, liquid, and transparent, providing reliable financial data for analysis. From this population, the study sample focuses on the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI), which comprises the 30 largest and most liquid firms representing diverse sectors of the Malaysian economy. After excluding financial firms due to their specific regulatory frameworks, the final sample consists of 26 non-financial companies, yielding 120 firm-year observations over the five-year period (refer to the table (3.1)).

The selected period (2018–2022) captures key economic and regulatory events, including the COVID-19 pandemic and the revisions to the Malaysian Code on Corporate Governance (MCCG 2017 and 2021), as well as amendments to the Companies Act in 2019. These developments significantly influenced corporate practices related to earnings management and tax avoidance, making this timeframe appropriate for examining their interactive effect on firm value.

Table (3.1): Study Sample

Firms Name	Sector Activity	No
The Star Media Group Bhd	Media	1
IJM Corporation Bhd	Constructions	1
Axiata Group Bhd	communications	1
Genting Bhd	consumer entertainment	2
Genting Malaysia Bhd	consumer entertainment	
Involve Capital Bhd	Technology	2
MYEG Services Bhd	Technology	
Malayan Banking Berhad	Financial services	-6
CIMB Group Holdings Bhd	Financial services	
Public Bank Bhd	Financial services	
London Life Pacific Insurance Berhad	Financial services	
RHB Bank Bhd	Financial services	
UOB Kay Hian Holdings Bhd	Financial services	
Boustead Plantations Bhd	Agriculture	2
Sime Darby Plantation Bhd	Agriculture	
Tenaga Nasional Berhad	Public facilities	1
Boustead Holdings Bhd	diversified	1
Sime Darby Property Bhd	Real estate	1
Kuala Lumpur Kepong Berhad	Consumer Products and Services	6
Maxis Bhd	Consumer Products and Services	
Nestle Malaysia Bhd	Consumer Products and Services	
BATA (Malaysia) Bhd	Consumer Products and Services	
PPB Group Bhd	Consumer Products and Services	
Top Glove Corporation Bhd	Consumer Products and Services	

Firms Name	Sector Activity	No
Ioi Corporation Berhad	Industrial products and services	5
Press Metal Aluminium Holdings Bhd	Industrial products and services	
Berjaya Energy Bhd	Industrial products and services	
Taminco Bhd	Industrial products and services	
Bangi Aluminium Bhd	Industrial products and services	
Petronas Gas Bhd	Oil and gas	1
Total number of Firms listed in the index		**30**
Total number of financial Firms		**6–**
Total number of Firms and observations in the sample		**24**
Total number of observations in the sample (№ of firms * 5 years)		**120**

Source: Prepared by the researcher based on https://topforeignstocks.com

3.2 Data Collection Procedures and Study Variables

3.2.1 Sources and Methods of Data Collection

This study relies on secondary quantitative data, most of which were manually collected from the audited annual reports published on the official websites of the companies, in addition to the official website of Bursa Malaysia (MYX), covering the period from 2018 to 2022. These reports are relevant to the research and accessible through the following link: https://www.bursamalaysia.com. Some stock prices and market values of equity were also obtained from the Yahoo Finance platform, which can be accessed through https://finance.yahoo.com.

3.2.2 Variables measurement:

The measurement of the variables is presented in the following table:

Table (3.2): Variables measuremenet

Nature of variables	Variables	Measurement	Reference
Dependent	Tobin's Q FV	$\text{Tobin's Q} = \frac{(\text{Total Assets} - \text{Equity}) + \text{Market Value of Equity}}{Total\ Assets}$	(Santana & Rezende, 2016)
Independent	DAC Earnings management	The modefied Johns's Model	(MacCarthy, 2021)
Control	FSIZE Firm Size	SIZE = Ln (Total Assets)	(Shin-Ae Kang & Kim Taejoong, 2019)
	AGE Firm Age	$Age = \frac{Current\ Year - Foundation\ Year}{Total\ Assets}$	(Santana & Rezende, 2016)
	LEV Leverage	$LEV = \frac{Total\ debts}{Total\ equity}$	(Razali et al., 2019)

Nature of variables	Variables	Measurement	Reference
	ROA Firm Performance	$ROA = \frac{Net\ profit}{Total\ assets}$	(Oktavani & Putra, 2017)

Source: Prepared by researcher based on the included references

The independent variable: Discretionary Accruals (DA)
Discretionary accruals are estimated using the Modified Jones Model through the following steps:

Step 1:

We calculated the total accruals ($TA_{i,t}$) for firm i in period t as the difference between net income and operating cash flows:

$$TAi,t = NIi,t - CFOi,t$$

Step 2:

We estimated the parameters (α_1, α_2, α_3) of the following regression model to determine non-discretionary accruals ($NDA_{i,t}$):

$$TAi.t / Ai,t-1 = \alpha1\ (1/Ai,t-1) + \alpha2\ (\Delta REVi,t / Ai,t - 1) + \alpha3\ (PPEi,t / Ai,t - 1) + \varepsilon i,t$$

Where:

- $TA_{i,t}$: Total accruals of firm i in period t
- $A_{i,t-1}$: Total assets of firm i at the end of the previous period
- $\Delta REV_{i,t}$: Change in revenues for firm i in period t
- $PPE_{i,t}$: Gross property, plant, and equipment for firm i in period t
- ε_i: Error term capturing unexplained variations in total accruals

Step 3:

We estimated the coefficients (α_1, α_2, α_3) to calculate the non-discretionary accruals ($NDA_{i,t}$) as follows:

$$NDAi,t = \alpha1(1 / Ai,t-1) + \alpha2((\Delta REVi,t - \Delta RECi,t) / At-1) + \alpha3(PPEi,t / Ai,t - 1)$$

Where $\Delta\ REC_{i,t}$ represents the change in receivables from the previous period to the current one.

Step 4:

We computed discretionary accruals ($DA_{i,t}$) as the difference between total accruals and non-discretionary accruals:

$$DAi,t = TAi,t - NDAi,t$$

Thus, discretionary accruals represent the portion of total accruals that results from managerial discretion in financial reporting.

3.3 Research model:

After mean-centering all the variables to avoid Multicollinearity problems, multiple linear regression is performed using SPSS V26, to empirically examine the effect of earnings management (proxied by DAC) on FV. The research regression model is built as follows:

- $FV_{i,t} = a + \beta_1 DAC_{i,t} + \beta_2 FSIZE_{i,t} + \beta_3 LEV_{i,t} + \beta 4 ROA_{i,t} + \beta_5 AGE_{i,t} + \varepsilon_{i,t}$

Where:

- FV: firm value of firm (i) in the year (t), proxied by Tobin's Q.
- α is the regression constant.
- DAC: Earnings management of firm (i) in the year (t), measured by discretionary accruals.
- FSIZE: Size of firm (i) in the year (t), measured by the natural logarithm of total assets.
- LEV: leverage of firm (i) in the year (t), proxied by Debt ratio.
- ROA: Firm performance of firm (i) in the year (t), proxied by the Return on Assets.
- AGE: Experience of firm (i) in the year (t), proxied by its age.
- ε = Error Term.
- β_1_β_5: Multiple regression coefficients.

4. Results and Discussion

4.1 Results

4.1.1 Descriptive statistics:

Table (4.1) Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FV	120	.3807	10.6666	1.8231	2.1473
DAC	120	-1079.6791	2554.2681	-3.7080	657.55403
LEV	120	.2195	8.5555	.9648	1.8121
FSIZE	120	-1.8971	7.4189	2.6284	2.1579
AGE	120	.0365	565.7142	39.7711	97.3817
ROA	120	.0785	244.7142	52.6576	49.9916
Valid N (listwise)	120				

Source: prepared by researcher based on the SPSS V26 outcomes

The descriptive statistics show considerable variation among the sampled firms (N = 120). Firm value (FV) ranges from 0.3807 to 10.6666, with a mean of 1.8231, indicating moderate differences in market valuation. Discretionary accruals (DAC) vary widely (–1079.6791 to 2554.2681), reflecting heterogeneous earnings management practices. Leverage (LEV) averages 0.9648, while firm size (FSIZE) and firm age (AGE) show substantial dispersion, with mean values of 2.6284 and 39.7711, respectively. Return on assets (ROA) has a mean of 52.6576, suggesting varying profitability levels. Overall, the statistics highlight the diversity of financial characteristics across the firms, supporting the reliability of the subsequent regression analysis.

Table 1 presents the descriptive statistics for the study variables (N = 120). Firm value (FV) ranges from 0.3807 to 10.6666, with a mean of 1.8231, indicating moderate differences in market valuation, which may reflect variations in firm performance, investor perception, and market conditions. Discretionary accruals (DAC) exhibit a wide range (–1079.6791 to 2554.2681), suggesting heterogeneous earnings management practices; this variability could stem from differences in

managerial incentives, corporate governance, or accounting policies across firms. Leverage (LEV) averages 0.9648, reflecting that firms maintain moderate debt levels, possibly to balance tax benefits and financial risk. Firm size (FSIZE) and firm age (AGE) show substantial dispersion (means of 2.6284 and 39.7711, respectively), indicating that both small/new and large/established firms are represented, which may influence resource availability, market power, and growth opportunities. Return on assets (ROA) has a mean of 52.6576, highlighting differences in profitability, which could be driven by operational efficiency, cost management, or sectoral factors. Overall, these statistics suggest that the sample captures diverse financial and operational characteristics, providing a robust basis for examining the impact of earnings management on firm value.

4.1.2 Model fit:

The overall regression model is statistically significant, as indicated by the F-statistic value of 10000.11 ($p < 0.01$), confirming that the explanatory variables collectively have a strong influence on firm value. The Adjusted R^2 value of 0.9976 shows that approximately 99.76% of the variation in firm value is explained by the independent and control variables included in the model, indicating an excellent fit. Furthermore, the Durbin–Watson statistic of 1.927 is close to the ideal value of 2, suggesting that there is no serious autocorrelation problem among the residuals, and thus the model's estimations are reliable.

Table (4.2): Regression results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.331	.024		14.048	.000**
DAC	-2.978E-5	.000	-.009	-2.029	.045*
LEV	.831	.016	.701	50.653	.000**
FSIZE	-.024	.006	-.024	-4.031	.000**
AGELAGED	-.001	.000	-.045	-3.645	.000**
ROA	.015	.000	.350	33.076	.000**
F test	10000.11**				
	.000				
Durbin-Watson	1.927				
Adjusted R^2	0.997625				

****. Coefficient is significant at the 0.01 level (2-tailed).**
***. Coefficient is significant at the 0.05 level (2-tailed).**

Source: prepared by researcher based on the SPSS V26 outcomes

The results in Table (4.2) show that earnings management (DAC) has a negative and statistically significant impact on firm value (β = -2.978E-5, t = -2.029, p = 0.045). This finding indicates that higher levels of discretionary accruals, which

represent greater earnings management, are associated with lower firm value. In other words, investors tend to penalize firms that engage in earnings manipulation, likely perceiving such behavior as a red flag of reduced transparency and rigid corporate governance.
Accordingly, **H_4 is accepted**, as the relationship between earnings management and firm value is found to be statistically significant at the 5% level.

Among the control variables, leverage (LEV) shows a strong positive and significant relationship with firm value ($\beta = 0.831$, $t = 50.653$, $p < 0.001$), suggesting that firms with higher leverage may experience higher valuation, possibly due to the tax benefits of debt or market confidence in their capital structure. Firm size (FSIZE) and firm age (AGE) both exhibit significant negative effects on firm value ($\beta = -0.024$, $t = -4.031$, $p < 0.001$; $\beta = -0.001$, $t = -3.645$, $p < 0.001$, respectively), implying that larger and older firms might face lower market growth opportunities or investor skepticism. In contrast, return on assets (ROA) is positively and significantly related to firm value ($\beta = 0.015$, $t = 33.076$, $p < 0.001$), confirming that profitability enhances firm valuation.

All in all, the model portrays that while financial performance and leverage can enhance firm value, earnings management practices tend to diminish it, reflecting the market's negative reaction to reduced earnings quality.

4.2 Discussion

The regression coefficient for earnings management (DAC) is $\beta = -2.978E-5$, indicating that if earnings management practices increase by 1%, the firm value of companies listed on the Main Market of Bursa Malaysia will decrease accordingly, assuming other variables remain constant. These results demonstrate a negative effect of earnings management on firm value, meaning that an increase in earnings management practices leads to a decline in firm value.

This finding is consistent with the results of Abogun et al. (2021); Ahmed & Ali (2022); Shin-Ae Kang & Kim Taejoong (2019); Tang & Chang (2015**)**, as well as Abbas & Ayub (2019); Chaney & Lewis (1995); Hernawati et al. (2021); Jiraporn et al. (2008); Nobakht & Acar (2021**)**, all of which reported a significant effect of earnings management on firm value.

This indicates that investors are able to detect such practices and tend to react negatively to them, which is reflected in the reduction of firm value. The negative effect can be justified from several perspectives:

First, given the active role of the Malaysian Securities Commission (SC) in monitoring corporate governance practices and the punitive measures it has taken against regulatory violations, earnings management practices may lead to increased regulatory scrutiny and legal consequences, thereby adding risks that could adversely affect firm value.

Second, investors may believe that earnings management distorts the firm's true financial performance, misleading stakeholders who rely on financial data to

make decisions. This distortion erodes confidence and trust in the firm's financial disclosures.

Third, earnings management may signal a lack of transparency and ethical concerns, which could result in legal penalties and harm the company's reputation — particularly after the revisions of the Malaysian Code on Corporate Governance (MCCG) in 2017 and 2021 aimed at enhancing transparency and ethical behavior, as well as the 2019 amendments to the Malaysian Companies Act designed to protect shareholders' rights.

Moreover, the focus on short-term financial objectives through profit manipulation can divert resources away from long-term, value-creating investments, thereby hindering the firm's growth potential. Finally, investors may interpret repeated earnings management practices as a sign of managerial opportunism, which negatively affects their perceptions and evaluations of the firm. Consequently, investors view earnings management as a harmful practice that diminishes firm value.

5. Conclusion

This study empirically examined the impact of earnings management on firm value from the perspective of investors in the Malaysian market. Using panel data from 26 non-financial firms listed on the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) over the period 2018–2022, the analysis was conducted through multiple linear regression after estimating discretionary accruals using the Modified Jones Model. Firm value was proxied by Tobin's Q, while control variables included firm size, leverage, profitability (ROA), and firm age.

The regression results revealed that earnings management has a **negative and statistically significant effect** on firm value. The result confirms that opportunistic earnings management undermines investor confidence and also suggests that investors in Malaysia penalize firms that engage in earnings manipulation, perceiving such behavior as an indication of lower transparency and weak governance. These results indicate that investors in the Malaysian capital market are sensitive to earnings quality and react unfavorably to opportunistic earnings management. The findings highlight that financial performance and leverage decisions can enhance firm valuation, while manipulative reporting practices decreases investor trust and reduce firm value. This emphasizes the important role of transparent reporting and effective corporate governance mechanisms in sustaining market confidence and protecting shareholder interests.

Limitations

This study has several limitations. It focuses only on non-financial firms listed in the FBM KLCI from 2018–2022, limiting generalizability to smaller or unlisted companies. Earnings management is measured solely via discretionary accruals using the Modified Jones Model, which may not capture all practices. The analysis relies on secondary financial data, potentially missing managerial intent

or qualitative governance aspects. Investor perception is assessed indirectly through Tobin's Q rather than direct sentiment measures.

Future Research Directions

Future research could include smaller firms or financial institutions and use alternative earnings management measures, such as real activities manipulation. Examining moderating factors like corporate governance, ownership concentration, or audit committee effectiveness may clarify their role. Qualitative or mixed-method approaches, such as investor surveys, could provide deeper insights, while cross-country studies in ASEAN or other emerging markets could enhance generalizability and highlight institutional effects.

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