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Earnings Management in the Age of Integrated Reporting: A Conceptual Analysis

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ABSTRACT

In response to the growing demand for greater transparency and accountability in corporate reporting, integrated reporting has emerged as a comprehensive framework that combines financial and non-financial information to present a holistic view of a company's performance. However, despite the promise of IR, questions remain about its ability to curb earnings management practices, particularly in contexts where governance structures and regulatory oversight are weak. This conceptual paper aims to analyse the relationship between IR and EM, specifically exploring how the adoption of IR may mitigate or exacerbate earnings manipulation in emerging markets such as Malaysia. The study employs a conceptual analysis methodology, reviewing existing literature on IR and EM through the theoretical lenses of agency theory and stakeholder theory. This paper builds on previous empirical studies to create a conceptual framework that connects the adoption of IR with less earnings manipulation, if strong governance frameworks and effective regulatory enforcement are in place. The findings suggest that IR has the potential to improve corporate transparency and accountability by reducing information asymmetry and aligning corporate practices with stakeholder expectations. However, the effectiveness of IR in reducing EM is conditional on the presence of robust governance structures. The implications of this study are both theoretical and practical. Theoretically, it contributes to the growing body of literature on corporate governance and financial reporting by highlighting the role of IR in mitigating agency conflicts. Practically, it offers insights for policymakers and regulators to strengthen governance frameworks and IR enforcement to enhance corporate transparency and reduce opportunistic financial practices.

Keywords: earnings management, integrated reporting, corporate transparency, financial reporting, corporate governance

INTRODUCTION

In an increasingly globalised and interconnected financial world, transparency and accountability are paramount for companies seeking to maintain their legitimacy and trust among stakeholders. A critical development addressing this need is integrated reporting (IR), which aims to provide a holistic view of a company's performance, encompassing financial, social, and environmental dimensions. Integrated reporting is considered a revolutionary approach to corporate reporting, offering insights beyond traditional financial metrics. It aims to enhance long-term decision-making by presenting a comprehensive narrative of a company's resource utilisation to create value. Despite its potential, the adoption of IR has sparked debates regarding its actual impact on corporate governance and financial integrity, particularly concerning earnings management (EM).

Earnings management, or the manipulation of financial records to present a misleadingly favourable picture of a company's financial health, remains a pervasive global issue. This practice undermines the accuracy of financial reporting and the overall reliability of corporate disclosures. The introduction of IR adds complexity, as firms might exploit the flexibility within integrated reporting frameworks to obscure underlying earnings manipulations under broader performance indicators. This global issue has attracted scholarly attention, with recent studies advocating for stricter standards and better enforcement of IR frameworks to curb opportunistic EM behaviours. This conceptual analysis aims to examine how integrated reporting might either mitigate or exacerbate earnings management practices and provide insights into improving corporate transparency and ethical reporting.

In Malaysia, the adoption of integrated reporting (IR) has steadily increased, particularly among publicly listed companies. According to the Malaysian Institute of Accountants (MIA), a significant number of publicly listed companies on Bursa Malaysia now produce integrated reports, reflecting Malaysia's leadership in promoting IR within the Asia-Pacific region, supported by regulatory bodies like the Securities Commission of Malaysia and Bursa Malaysia.

However, challenges persist despite this progress. A 2023 benchmarking report by PwC Malaysia indicates that while companies have improved compliance, their reporting often remains siloed, with insufficient integration across various content elements. The focus is still on compliance rather than offering deeper insights into the company’s outlook and its responses to risks and opportunities. Additionally, most Malaysian companies are still early in their IR journey, with only top-tier firms adopting a fully integrated approach to corporate reporting.

On the earnings management front, there is ongoing concern that IR might influence financial practices, including earnings management, especially in companies aiming to present a favourable image to investors. Aligning earnings management with integrated thinking remains a significant challenge in Malaysia as firms adapt to the transparency demands imposed by IR frameworks. Scholars have extensively studied the relationship between integrated reporting (IR) and earnings management (EM), particularly considering the growing global adoption of IR frameworks. Recent research highlights that IR, by promoting transparency and accountability, could potentially deter earnings manipulation practices. For instance, Zhou, Simnett, and Hoang (2022) discovered that companies that use IR tend to have lower levels of EM because they must disclose more information, such as environmental, social, and governance (ESG) factors in addition to financial metrics. This broader scope of reporting increases scrutiny of corporate activities, thereby preventing managers from engaging in opportunistic financial practices.

In the Malaysian context, Abdul Rahman and Wan Abdullah (2023) examined IR adoption and its impact on earnings management. Their study found that while IR adoption is positively associated with enhanced corporate transparency, it does not eliminate earnings management behaviours in companies with weaker governance structures. They argue that the effectiveness of IR in curbing EM largely depends on the quality of corporate governance and regulatory enforcement. Similarly, a 2022 study by Noor, Mat Nor, and Hashim emphasises that companies with robust IR frameworks show lower tendencies towards EM, particularly in highly regulated industries. However, in less regulated sectors, managers may still exploit IR’s flexibility for earnings manipulation, revealing a critical gap in regulatory oversight.

Furthermore, a meta-analysis by Malola and Maroun (2022) explored the interplay between IR and EM in various emerging markets, including Malaysia. Their findings suggest that while IR is associated with improved corporate transparency, its effectiveness in reducing earnings management is conditional on the regulatory environment and firm-specific characteristics, such as ownership structure and board strength. The objective is to improve long-term decision-making by providing a detailed account of how a company uses its resources to generate value. These studies collectively suggest that while IR shows promise as a tool for enhancing corporate transparency and curbing earnings management, its effectiveness depends on the presence of robust governance structures and strict regulatory enforcement, particularly in emerging markets like Malaysia.

Despite the growing body of literature on integrated reporting (IR) and earnings management (EM), a significant gap remains in understanding how IR specifically impacts EM practices in emerging markets such as Malaysia. Most studies have focused on developed economies with mature regulatory frameworks and higher levels of IR adoption. Limited research has addressed the implications of IR adoption in countries with weaker governance structures and less stringent regulatory enforcement. In Malaysia, while IR adoption is progressing, the nuanced dynamics of its relationship with earnings management remain underexplored. This gap is crucial given Malaysia's dual focus on becoming a regional leader in sustainability reporting and its unique economic structure, where family ownership and state-owned enterprises play significant roles in corporate governance.

The primary objective of this research is to conduct a conceptual analysis of the interplay between integrated reporting and earnings management in Malaysia. This paper aims to investigate how IR frameworks influence earnings management practices within Malaysian firms, particularly in the context of varying governance structures and industry-specific factors. The research will further explore whether IR can effectively reduce EM or if firms continue to engage in EM despite adopting IR. Additionally, this study seeks to contribute to the broader literature by offering insights into the regulatory and governance conditions necessary for IR to effectively mitigate earnings management.

This study contributes to both academic literature and practical understanding in several key ways. First, by focussing on Malaysia, an emerging market with evolving regulatory and corporate governance frameworks, the study extends the existing literature on IR and EM, which has largely centred on developed economies. Malaysia's economic landscape, characterised by family-owned businesses, state-owned enterprises, and increasingly globalised corporations, presents unique challenges and opportunities for IR adoption. The insights gained from this study will deepen the understanding of how IR impacts EM practices in contexts with different governance structures and regulatory enforcement.

Second, the study advances the conceptual analysis of IR and EM, offering a theoretical contribution by examining the conditions under which IR can effectively deter earnings management. By integrating corporate governance theories with the IR framework, this research explores how governance mechanisms interact with IR practices to influence corporate transparency and accountability. It also investigates IR's limitations in environments with less stringent regulatory oversight, contributing to the debate on IR's global applicability and effectiveness in curbing opportunistic financial behaviours.

Finally, the practical contribution of this study lies in its implications for regulators, policymakers, and corporate governance bodies. The findings will provide valuable insights into the conditions that facilitate the successful implementation of IR frameworks to reduce EM, offering guidance for enhancing corporate governance practices in Malaysia and similar emerging markets. The study's recommendations could inform policy reforms aimed at strengthening IR regulations and corporate governance mechanisms, ultimately contributing to more transparent and sustainable business practices across the region.

The structure of this paper is as follows: the next section provides a detailed literature review, examining the theoretical underpinnings of integrated reporting and earnings management, along with relevant empirical studies. Following this, the methodology section outlines the conceptual framework used to analyse the relationship between IR and EM, particularly in the Malaysian context. The subsequent section discusses the findings of this conceptual analysis, offering insights into the extent to which IR affects earnings management practices within Malaysian firms. The article concludes with a discussion on the implications of these findings for policymakers, regulators, and corporate governance bodies, as well as recommendations for future research.

LITERATURE REVIEW

Integrated Reporting and Earnings Management

Integrated Reporting (IR) is a corporate reporting framework that seeks to present a holistic and integrated picture of a company's performance. Rather than focussing solely on financial metrics, IR incorporates environmental, social, and governance (ESG) elements alongside financial disclosures to provide a more comprehensive view of a firm's value creation process over time. The framework, championed by the International Integrated Reporting Council (IIRC), emphasises the interconnections between various types of capital: financial, manufactured, intellectual, human, social, and natural, and how these resources contribute to sustainable business practices. The primary goal of integrated reporting is to shift corporate reporting away from short-term profit metrics to a long-term perspective on value creation. By including non-financial information, IR aims to give stakeholders a fuller understanding of a company's strategy, governance, performance, and prospects in the context of its external environment.

On the other hand, earnings management (EM) refers to the manipulation of financial reports to present a more favourable view of a company’s financial health than may be warranted. This practice typically involves exploiting accounting flexibilities to smooth out earnings, inflate profits, or hide poor financial performance. While some forms of earnings management might remain within the bounds of legality, they can nonetheless distort the true economic reality of the firm, undermining the credibility and transparency of financial reporting.

Firms often position IR as a tool to mitigate earnings management, as its emphasis on transparency and broader performance metrics lessens the possibility of firms masking their financial manipulations through narrowly focused financial reports. However, critics argue that IR frameworks may, in some instances, provide additional flexibility for firms to manipulate non-financial disclosures to achieve the same effect; enhancing their perceived performance in ways that are difficult to quantify or verify.

The field of integrated reporting has published a significant amount of literature. Many previous studies investigated the effect of integrated reporting. Shirabe and Nakano (2019;2022) investigate the impact of integrated reporting (IR) on the occurrence of earnings management. It analyses a dataset consisting of 45,000 firm-year observations for 5,785 distinct firms from 2004 to 2017 using panel data regression. The sample consists primarily of Japanese listed companies that have willingly adopted integrated reporting. They discovered a correlation between the implementation of IR and an increase in abnormal cash flows from operations, a decrease in abnormal production costs, and a decrease in overall activity manipulation. These findings indicate that companies refrain from manipulating actual activities after IR implementation. This applies to both the manipulation of earnings through accruals and the manipulation of actual earnings. Additionally, they find that the impact of integrated reporting on earnings management becomes evident around two years or longer following the implementation of integrated reporting.

Similarly, Wu and Zhou (2022) examine whether firms that practise IR to a greater extent demonstrate lower levels of earning management using several IR measures and a worldwide sample of 19,926 firm-year observations from 2008 to 2015. They show firms that practice IR use less accrual-based earnings management; they do use real activity earnings management.

On the other hand, a study by Eloff and Steenkamp (2022) concludes that firms with income-generating EM activities are less likely to disclose higher-quality integrated reports. They use 238 company years listed on the Johannesburg Stock Exchange (JSE) from 2013 to 2017 to investigate the relationship between integrated report quality and EM. The samples are the top 100 firms as recognised by Ernst & Young's (EY) annual Excellence in Integrated Reporting Award.

Furthermore, Appiagyei and Donkor (2023) find a positive association between IR quality and sustainability performance using a sample of the top 100 firms on the Johannesburg Stock Exchange. Obeng et al. (2020) also indicate that voluntary integrated reporting (IR) as a disclosure tool improves accounting information, particularly the quality of reported earnings. Using the ASSET4 universal list from 2009 to 2015, they found a favorable link between voluntary adoption of IR practice and earnings quality.

Previous studies have reported IR is not enhancing the value relevance of corporate disclosures (Cooray et al. (2020); Priyadarshani et al. (2023). They examine whether integrated reporting enhances the value relevance of corporate disclosures in Sri Lanka. They conducted the studies using data collected from Colombo Stock Exchange (CSE) listed companies. However, Samy El-Deeb (2019) finds a positive relationship between the level of IR compliance and firm performance and value and the leverage level of the companies using data from the companies listed in the EGX30 index in the Egyptian stock exchange market through the period 2012 to 2017.

Otherwise, a mixed-methods study by Sriani and Agustia (2020) examines the effect of voluntary integrated reporting on information asymmetry in European and Asian firms using a final sample of 94 firms in Europe and Asia that published integrated reports in 2016. Nonetheless, the results show that there is an insignificant relationship between integrated reporting quality and information asymmetry.

Theoretical Framework

Researchers have developed several theoretical frameworks and models to explore the intersection of integrated reporting and earnings management, laying the groundwork for empirical studies. One relevant theory is agency theory, which posits that there is an inherent conflict of interest between the managers (agents) and shareholders (principals) of a company. Managers may prioritise short-term performance metrics to meet targets and receive bonuses, even at the expense of long-term value creation. Integrated reporting, by broadening the scope of disclosures, can help mitigate this agency problem by providing shareholders with more comprehensive insights into the company's overall performance, making it more difficult for managers to engage in opportunistic earnings management.

Legitimacy theory is another theoretical lens often used to explain corporate behaviour. This theory suggests that firms seek to legitimise their operations by conforming to societal expectations. As stakeholders, including investors and regulators, place greater emphasis on sustainability and long-term value, IR offers a pathway for companies to demonstrate their legitimacy by addressing non-financial performance indicators, such as environmental stewardship and social responsibility. In this context, firms may adopt IR to align with societal values, but questions remain as to whether this truly deters earnings manipulation or simply redirects it towards more opaque forms of non-financial reporting.

Stakeholder theory complements legitimacy theory by focussing on the relationships between a firm and its various stakeholders, including employees, customers, suppliers, and the broader community. Stakeholder theory argues that companies should be managed in the interests of all stakeholders, not just shareholders. Integrated reporting fits well with this theory, as it encourages firms to disclose how they create value for all stakeholders, not just in financial terms but also in social and environmental terms. However, the theory also raises questions about how companies balance competing stakeholder interests, which could, in some cases, lead to earnings management if firms feel pressured to meet the demands of different stakeholders.

Empirical models frequently use Jones' Model (1991) to measure earnings management. This model separates discretionary from non-discretionary accruals to identify the extent of earnings manipulation. Applying this model to firms adopting IR allows researchers to assess whether these firms demonstrate lower levels of discretionary accruals than firms using traditional reporting frameworks. The findings have been mixed; while some studies indicate that IR reduces EM by increasing transparency, others suggest that the complexity of IR can sometimes obscure rather than clarify a firm’s financial health, providing new avenues for earnings management.

Despite the growing body of literature on integrated reporting and earnings management, there are still several gaps in the research, particularly in the context of emerging markets. Much of the existing research has focused on developed economies, where regulatory frameworks are more mature and corporate governance structures are relatively strong. In contrast, emerging markets often have weaker regulatory environments and less robust governance mechanisms, which can influence the effectiveness of IR in curbing earnings management. Additionally, there is a lack of longitudinal studies that track the impact of IR on earnings management over time. While many studies provide a snapshot of IR adoption and its short-term effects, fewer have examined how IR influences corporate behaviour in the long term, particularly as companies become more adept at using the framework. Moreover, the question of whether IR reduces earnings management or merely shifts the focus of manipulation to non-financial indicators remains underexplored.

Another research gap concerns IR's sector-specific implications. Different industries face unique challenges when it comes to integrating non-financial reporting with traditional financial disclosures. For example, sectors such as energy and manufacturing may find it easier to report on environmental performance due to the tangible nature of their operations, while service-orientated industries may struggle to define and measure their impact on social and human capital. This divergence creates opportunities for future research to explore how industry characteristics influence IR's effectiveness in reducing earnings management.

In conclusion, integrated reporting presents a promising avenue for improving corporate transparency and accountability, but its effectiveness in mitigating earnings management is far from guaranteed. While IR broadens the scope of disclosures to include ESG factors, thus enhancing transparency, it also introduces new complexities that may allow firms to engage in more sophisticated forms of earnings manipulation. Future research should focus on understanding how regulatory environments, corporate governance structures, and industry-specific factors shape the relationship between IR and EM, particularly in emerging markets. Only by addressing these gaps can we fully assess IR's potential to transform corporate reporting and curtail opportunistic financial practices.

Proposition

Drawing from the previous discussion, we propose the following:

Proposition 1: Integrated reporting will have a negative impact on earnings management.

Conceptual Framework

This framework illustrates the conceptual analysis of how integrated reporting (IR) impacts earnings management (EM), considering the roles of corporate governance, stakeholder engagement, and transparency in Figure 1. While we expect IR to reduce EM, the strength of this relationship depends on governance and transparency levels, and engagement with stakeholders helps mediate the outcome.

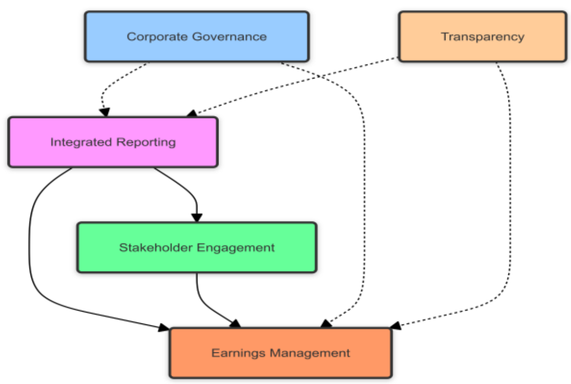

Figure 1: Conceptual Framework

METHODOLOGY

Research Design

This study adopts a conceptual research design aimed at critically analysing the relationship between integrated reporting (IR) and earnings management (EM) within corporate entities. A conceptual research design is appropriate for this analysis as it allows for the synthesis of existing theoretical frameworks and empirical findings to propose new insights (Jabareen, 2009). This research investigates the dynamics of transparency, governance, and stakeholder engagement within IR practices, as well as their potential impact on EM, by utilizing theories such as agency theory, stakeholder theory, and legitimacy theory. The research design does not include primary data collection but instead utilises secondary data, including published literature, case studies, and policy documents, to develop and support its propositions.

Population, sample size, and sampling technique.

This study's population includes global publicly listed firms that have implemented integrated reporting practices, as well as academic literature from the last five years related to IR and EM. The sample for the literature review includes peer-reviewed journal articles, corporate reports, and studies focussing on integrated reporting frameworks and earnings management practices. We employ a purposive sampling technique, focusing on literature that discusses the theoretical underpinnings of IR and EM, and filtering for studies conducted between 2019 and 2024. This sampling method ensures that the analysis remains relevant to contemporary practices and emerging trends in corporate transparency and governance (Etikan et al., 2016).

Data Collection

Secondary sources such as scholarly articles, books, corporate reports, regulatory guidelines, and conference proceedings that discuss integrated reporting, earnings management, and related theoretical frameworks provide the data for this study. This study uses databases such as Google Scholar, Scopus, and JSTOR to access relevant academic literature, focussing on publications that have undergone rigorous peer review. We also examine corporate sustainability reports and governance documents from company websites and repositories such as the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC). These data sources allow for a comprehensive analysis of the impact of IR on corporate governance and earnings management practices.

Data Analysis

This study employs a thematic analysis approach to synthesise findings from the reviewed literature. Thematic analysis is suitable for conceptual research because it facilitates the identification, analysis, and reporting of patterns or themes within qualitative data (Braun & Clarke, 2006). We carefully examine the data from secondary sources to extract recurring themes related to the effectiveness of IR in mitigating earnings management practices, corporate governance influences, and the role of transparency and stakeholder engagement. The thematic analysis also helps to elucidate how theoretical frameworks like agency theory and signalling theory explain the relationship between IR and EM. We further employ a content analysis to evaluate corporate reports, focusing on how the components of integrated reporting align with corporate governance and transparency practices that deter earnings management.

Variables and measurements

The independent variable in this conceptual paper is integrated reporting (IR), which is measured by firms' adoption as indicated in their corporate reports. Key dimensions of IR include disclosures related to financial performance and environmental, social, and governance (ESG) indicators. The dependent variable is earnings management (EM), which is evaluated by looking at indicators such as abnormal accruals and discretionary accruals, as reported in empirical literature (Dechow et al., 2012). Additionally, moderating variables such as corporate governance mechanisms (e.g., board independence and audit committees) and mediating variables like stakeholder engagement are considered based on their influence on the relationship between IR and EM. Measurements of these variables are derived from prior research studies and standardised scales used in corporate governance and earnings management research (Zhou et al., 2022).

Reliability and validity of questionnaire constructs

The constructs used in this conceptual analysis, although primarily secondary, must adhere to standards of reliability and validity to ensure the rigour of the analysis. In this case, reliability means that the theoretical claims and the evidence that supports them are consistent. This can be done by using well-established theoretical frameworks and only including high-quality sources that have been reviewed by peers (Tavakol & Dennick, 2011). Validity concerns the accuracy of the theoretical connections drawn between IR and EM, and whether the constructs genuinely reflect the relationship they purport to measure. Cross-referencing multiple sources of data, like empirical findings from different regions and sectors, to make sure that IR adoption leads to less earnings management under certain governance conditions is a way to make sure that the construct is valid (Freeman et al., 2021). Moreover, triangulation, which combines insights from various studies and frameworks, enhances the overall validity of the study.

CONCLUSION

The conceptual analysis of earnings management (EM) in the age of integrated reporting (IR) reveals complex interactions between corporate transparency, governance mechanisms, and managerial behaviours. We postulate that Integrated Reporting (IR), with its focus on holistic disclosures encompassing financial, environmental, and social dimensions, will improve transparency and reduce the incidence of earnings manipulation. This finding is consistent with prior research, which emphasises that enhanced corporate disclosures through IR increase managerial accountability and stakeholder scrutiny, thereby reducing the opportunity for earnings management (Zhou et al., 2022). However, the effectiveness of IR in curbing EM largely depends on the corporate governance structures in place. Firms with stronger governance mechanisms, such as independent boards and stringent audit processes, are better equipped to mitigate the opportunistic behaviours associated with EM. Conversely, firms with weaker governance may exploit the flexibility within IR frameworks to conceal EM practices under broader performance indicators (Noor, Mat Nor, & Hashim, 2022).

Moreover, the success of IR in reducing EM is also contingent on regulatory oversight. Studies indicate that while IR adoption is positively associated with corporate transparency, its impact on EM is conditional on the presence of strong regulatory frameworks that enforce compliance and penalise misconduct (Malola & Maroun, 2022). In emerging markets like Malaysia, where governance structures may not be as robust, IR’s potential to reduce earnings management is less pronounced, highlighting the importance of regulatory intervention and corporate governance reforms.

In the Age of Integrated Reporting (IR), Earnings Management (EM) has the potential to prevent earnings manipulation by enhancing clarity and facilitating the sharing of non-financial metrics such as environmental, social, and governance (ESG) factors. This comprehensive disclosure framework promotes higher levels of corporate accountability, leading to reduced opportunities for earnings management. For instance, prior research by Zhou, Simnett, and Hoang (2022) found that firms adopting IR typically exhibit lower levels of EM, as stakeholders gain greater insight into the company’s overall performance, which enhances scrutiny and oversight.

However, the quality of corporate governance and the strength of regulatory frameworks have a significant impact on IR's effectiveness in mitigating EM. In environments with robust governance structures such as independent boards and well-established audit committees; the likelihood of earnings manipulation decreases. Conversely, in firms with weaker governance mechanisms, IR's flexibility may inadvertently provide avenues for earnings management, as managers may exploit the broader performance measures within the IR framework. The regulatory environment also influences IR's impact on earnings management. Strong regulatory oversight ensures compliance and reduces the risk of opportunistic behaviour. In emerging markets like Malaysia, where governance structures may be less developed, IR alone may not fully eliminate earnings management practices, underscoring the need for regulatory reinforcement alongside IR adoption to achieve greater corporate transparency and integrity (Malola & Maroun, 2022).

This conceptual analysis on earnings management (EM) in the age of integrated reporting (IR) presents several key findings. First, IR has the potential to mitigate earnings manipulation by fostering greater transparency and accountability in corporate disclosures. By integrating financial and non-financial data, such as environmental, social, and governance (ESG) metrics, IR enhances stakeholder insight into a company’s overall performance, making it more difficult for managers to engage in earnings manipulation. Studies show that companies adopting IR frameworks tend to exhibit lower levels of EM, particularly in environments with strong governance mechanisms (Zhou, Simnett, & Hoang, 2022). However, IR's effectiveness in reducing EM is contingent on the quality of corporate governance and regulatory oversight. In jurisdictions with weak governance structures or insufficient regulatory frameworks, the flexibility of IR may allow managers to exploit broader performance indicators, thus continuing earnings management practices.

Theoretical Implications

This study contributes to a broader understanding of corporate governance and financial reporting by exploring the intersection of IR and EM through the lenses of agency theory, legitimacy, and stakeholder theory. Agency theory posits that the separation of ownership and control creates conflicts of interest, particularly regarding earnings manipulation. IR's comprehensive disclosure frameworks reduce information asymmetry between managers and stakeholders, mitigating the agency problem. Stakeholder theory further underpins the analysis by emphasising the need for companies to be accountable not only to shareholders but to a broader array of stakeholders who are interested in the company's social and environmental impact, aligning with IR's holistic goals.

Practical Implications

For practitioners, the study underscores the importance of adopting IR as a tool to improve corporate transparency and ethical behaviour. Companies that integrate financial and non-financial disclosures are more likely to enhance stakeholder trust and attract long-term investments. Additionally, regulators and policymakers should focus on strengthening governance frameworks and ensuring stringent enforcement of IR standards to prevent the potential misuse of flexible reporting frameworks for earnings management. Furthermore, companies operating in emerging markets should prioritise the establishment of robust governance structures to supplement their IR implementation, thereby effectively curbing earnings management behaviours.

The practical implications of this study demonstrate that Integrated Reporting can potentially reduce Earnings Management if supported by strong governance structures and effective regulatory enforcement. Corporate leaders, regulators, investors, and accounting professionals all have a role to play in ensuring the success of Integrated Reporting as a tool to enhance corporate transparency and integrity.

Limitations

This conceptual paper has limitations primarily due to the absence of empirical data. While existing literature provides a strong foundation for the analysis of the theoretical arguments, empirical studies are necessary to test the findings. Additionally, the focus on Malaysia and other emerging markets may limit the generalisability of the findings to developed economies, where governance structures and regulatory environments are more mature. Future research should examine empirical evidence from a diverse range of countries to determine the consistency of the proposed relationships.

Suggestions for future research

Future research should focus on conducting empirical studies to test the conceptual framework proposed in this paper. Longitudinal studies could be particularly useful in examining how the adoption of IR impacts earnings management over time, taking into account various stages of regulatory maturity and governance reforms. Additionally, comparative studies between emerging markets and developed economies could offer valuable insights into how different regulatory environments and governance structures influence the effectiveness of IR in mitigating earnings management. Lastly, exploring how specific elements of IR, such as the reporting of ESG metrics, contribute to reducing earnings manipulation could provide a more nuanced understanding of its role in promoting corporate transparency.

In conclusion, while IR offers a promising path towards reducing earnings management, its success largely depends on the strength of corporate governance and regulatory enforcement. We need future research to validate these conceptual findings and delve deeper into the complexities of IR's role in enhancing corporate transparency.

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