Earning Manipulation Intentions: A Systematic Literature Review

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Abstract— **The purpose of this study is to comprehensively analyze the factors that affect the intention to conduct earning manipulation through the application of the Systematic Literature Review (SLR). The methodology used in this study is the application of the Systematic Literature Review of 20 journal articles from the Scopus, Web of Science, Dimensions, and ScienceDirect databases. Article selection was done through the application of the inclusion and exclusion criteria, and the assessment of the quality of the articles was done through the application of the Mixed Methods Appraisal Tool (MMAT). Data analysis was done through the application of the NVivo tool to identify the key themes and patterns in the study results. From the study results, it is evident that earning manipulation is affected by economic factors such as compensation incentives, company characteristics, and audit quality, and psychological factors such as board characteristics, CEO characteristics, and environmental influences. It is therefore evident that earning manipulation is a multidimensional phenomenon that requires the development of more comprehensive accounting standards and the application of more comprehensive detection models in diverse research contexts.**

Keywords— Earning Manipulation; Systematic Literature Review; Corporate Governance; Audit Quality; Accrual-Based Manipulation.

1. INTRODUCTION

Earning manipulation is a deliberate action undertaken by company management to influence reported earnings in order to meet predetermined targets [1], [2]. This practice may involve selecting specific accounting methods, altering accounting estimates, or structuring transactions strategically [1]. Although such actions may remain within the boundaries of Generally Accepted Accounting Principles (GAAP), they are often considered opportunistic and ethically questionable because they obscure the company's true financial condition from stakeholders [2].

The phenomenon of earning manipulation occurs in both developed and developing countries. Dichev et al. [3] report that approximately 20% of U.S. companies manipulate earnings each period, with an average distortion of 10% of reported income. In Indonesia, fraudulent financial practices remain prevalent. During 2021–2022, authorities recorded 97 fraudulent investment cases, 619 illegal online lending cases, and 62 illegal pawn activities, resulting in losses totaling Rp 123.51 trillion [4]. Furthermore, Indonesia ranked fourth globally with 23 fraud cases in 2022, with financial statement fraud accounting for 6.7% of total cases [4]. Earning manipulation generates significant negative consequences. It reduces the quality and reliability of financial reporting, leading to biased information that misguides stakeholder decision-making [5]. In the long term, such practices may harm firm performance, erode investor confidence, and reduce firm value [1].

Previous studies have examined various determinants of earning manipulation. Cho et al. [1] investigate the impact of air pollution, Geng et al. [2] analyze the role of local religious beliefs, Lin et al. [6] examine CEO narcissism, and Thanh Liem [7] explores financial statement comparability. However, most studies focus on isolated variables and specific national contexts, limiting the generalizability and integrative understanding of the phenomenon [8].

Therefore, a comprehensive synthesis of existing literature is necessary. This study conducts a Systematic Literature Review (SLR) to address the following research questions: (1) What factors influence earning manipulation intentions? (2) What forms of accounting manipulation are commonly categorized as earning manipulation? (3) What detection methods are used? (4) What measurement indicators are commonly applied? and (5) What prevention mechanisms are considered effective?

By answering these questions, this study aims to provide a holistic understanding of earning manipulation intentions and offer implications for regulators, auditors, and stakeholders in strengthening financial reporting integrity and governance mechanisms.

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2. METHODOLGY

This study employs a Systematic Literature Review (SLR) approach to comprehensively examine prior research on earning manipulation intentions. The SLR method ensures a transparent, structured, and replicable process in synthesizing findings from existing studies [9], [10]. The review process consists of several stages: formulating research questions, developing a review protocol, conducting a comprehensive literature search, applying inclusion and exclusion criteria, assessing study quality, extracting and synthesizing data, and reporting findings systematically. To structure the research focus, this study adopts the PICO (Population, Intervention, Comparison, Outcome) framework [11]. The "Population" refers to companies involved in earnings manipulation practices. The "Intervention" includes determinants of earning manipulation intentions, forms of manipulation, detection methods, measurement indicators, and prevention mechanisms. The "Comparison" element is not applied, as this study does not compare interventions. The "Outcome" concerns the intention to manipulate earnings. Relevant articles were identified through four major databases: Scopus, Web of Science, Dimensions, and ScienceDirect. The search string applied to titles, abstracts, and keywords was: ("earning manipulation" OR "earnings manipulation") AND ("tendency" OR "propensity" OR "inclination").

Inclusion criteria were: (1) articles published between 2019 and 2024, (2) written in English, and (3) empirical research articles. Review papers, conference proceedings, and book chapters were excluded. The selection process was conducted in two stages: initial screening of titles and abstracts, followed by full-text review. Study quality was assessed using the Mixed Methods Appraisal Tool (MMAT), which is suitable for evaluating qualitative, quantitative, and mixed-method studies. Data extraction and thematic coding were performed using NVivo software. Findings were categorized into four main themes: determinants of earning manipulation intentions, forms of manipulation, detection indicators, and prevention mechanisms. This structured coding process enhances reliability and validity in synthesizing literature findings.
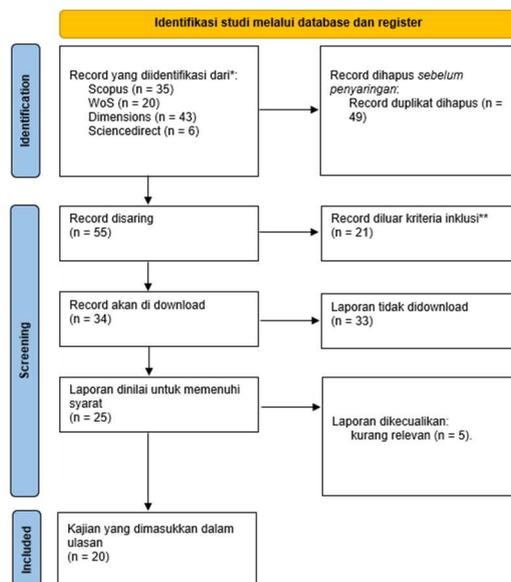
3. DISCUSSION

Figure 1 identify studies through databases and registries

This study aims to conduct a systematic literature review (SLR) of various studies on earning manipulation intentions. Through a comprehensive analysis of 20 relevant articles, this study seeks to answer five main research questions related to factors influencing earning manipulation intentions, frequently used forms of accounting manipulation, methods and indicators for detecting earning manipulation intentions, and effective prevention mechanisms.

The results of the study show that the intention to manipulate earnings is influenced by various economic and psychological factors. Economic factors include compensation incentives and capital markets, company characteristics, managerial ownership and ownership structure, audit quality, as well as other factors such as debt contracts, equity offerings, and tax avoidance [1], [2], [5], [6], [7], [8], [12], [13], [14]. Meanwhile, psychological factors include the characteristics of the board of directors, environmental factors, and CEO characteristics [1], [15], [16], [17], [18], [19]. These findings underscore the complexity of the phenomenon of earning manipulation and the importance of considering various aspects in understanding and preventing such practices.

This study also identifies various forms of accounting manipulation that are often used, such as earning manipulation through subjective accounting policy choices, earning manipulation through deviations from normal operational activities, time differences, hidden liabilities and expenses, improper disclosure, and improper asset valuation [1], [4], [7], [13], [14], [15], [17], [18], [20], [21], [22], [23], [24] These findings highlight the diversity of manipulation techniques used by managers to achieve specific financial reporting goals.

Furthermore, the study explores various methods and indicators used to detect earning manipulation intentions, such as the Beneish M-Score model, the modified Jones model and its variations, as well as other statistical and proxy analyses [1], [7], [13], [15], [17], [18], [20], [21], [22], [23], [24], [25]. These findings demonstrate the importance of using reliable and relevant detection tools to effectively identify earning manipulation practices.

The study also identified several effective prevention mechanisms, such as good corporate governance, external and internal audits, accounting regulations and standards, disclosure and transparency, social norms and religiosity, and compensation schemes such as clawback. These findings highlight the critical role of various stakeholders, such as regulators, auditors, investors, and the company itself, in preventing and mitigating earning manipulation practices.

Overall, the findings of this study are consistent with previous studies that show that earning manipulation is a complex phenomenon that is influenced by various economic, psychological, and contextual factors [1], [3], [22]. However, the study makes a unique contribution by integrating the findings of various studies in one comprehensive framework and identifying key areas for further research.

The implications of the findings of this study are quite broad. For regulators and policymakers, the results of this study highlight the importance of developing and implementing stricter accounting standards, as well as strengthening oversight and enforcement mechanisms to prevent earning manipulation. For companies and the board of directors, these findings point to the need to improve corporate governance, including the independence of the board, the frequency of meetings, and the financial expertise of the audit committee. For investors and analysts, the results of this study emphasize the importance of being aware of signs of earning manipulation and the use of reliable detection tools in assessing the quality of financial statements. For academics and researchers, these findings pave the way for further research on the dynamics of earning manipulation in various contexts and the development of more sophisticated detection models.

Although this research makes a significant contribution, there are some limitations that need to be acknowledged. First, the study mainly focuses on studies published in United Kingdom and may have missed important insights from research in other languages. Second, the heterogeneity of methodology and context among the studies reviewed may affect the comparability and generalization of findings. Third, the study relies on qualitative interpretations of the findings of previous studies, which may be influenced by the subjectivity of the researchers.

For further research, several promising directions can be considered. First, future research may explore the interactions and trade-offs between various factors that influence earning manipulation intentions, as well as the underlying temporal and contextual dynamics. Second, the development of more advanced earning manipulation detection models, which combine quantitative and qualitative analysis, can help improve the accuracy and speed of detection. Third, further investigation into the effectiveness of different prevention mechanisms, as well as the factors that facilitate or hinder their implementation, can provide valuable insights for practitioners and policymakers. Finally, expanding the scope of research to include diverse institutional and cultural contexts could enrich our understanding of the phenomenon of earning manipulation globally.

4. CONCLUSION

This study conducted a systematic literature review (SLR) of various studies on earning manipulation intentions, with the aim of identifying factors influencing earning manipulation intentions, frequently used forms of accounting manipulation, methods and indicators to detect earning manipulation intentions, and effective prevention mechanisms. The results show that various economic and psychological factors, such as compensation incentives and capital markets, company characteristics, managerial ownership and ownership structure, audit quality, characteristics of the board of directors, environmental factors, and CEO characteristics influence the intention of earning manipulation. This study also identifies various forms of accounting manipulation that are often used, such as earning manipulation through subjective accounting policy choices, earning manipulation through deviations from normal operational activities, time differences, hidden liabilities and expenses, improper disclosure, and improper asset valuation. Various methods and indicators for detecting earning manipulation intentions are also discussed, including the Beneish M-Score model, the modified Jones model and its variations, as well as statistical analysis and other proxies. In addition, the study identifies several effective prevention mechanisms, such as good corporate governance, external and internal audits, accounting regulations and standards, disclosure and transparency, social norms and religiosity, and compensation schemes such as clawbacks.

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