Review of: "Beyond the Barriers: Institutional Strength as a Shield in Curbing Earnings Manipulation"

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Potential competing interests: No potential competing interests to declare.

Review: Recommended for MAJOR REVISION

"Beyond the Barriers: Institutional Strength as a Shield in Curbing Earnings Manipulation"

Introduction

The paper titled "Beyond the Barriers: Institutional Strength as a Shield in Curbing Earnings Manipulation" explores the role of institutional frameworks in mitigating earnings manipulation (EM) within emerging economies. The study's scope spans 2509 corporations across 22 developing nations from 2000 to 2017. The introduction effectively sets the stage by highlighting the transformation of emerging economies and the challenges they face with earnings manipulation due to weaker corporate governance structures.

Suggested Improvements for Introduction:

i. **Contextual Clarity**: The introduction could benefit from more specific examples of emerging economies and a brief discussion of how different types of economies (e.g., transitioning vs. newly emerging) might face unique challenges.
ii. **Objective Statement**: A clear statement of the study’s primary objective should be included early in the introduction to set clear expectations for the reader.
iii. **Literature Gaps:** Explicitly stating the gaps in existing literature that this study aims to fill would enhance the introduction's relevance.

Motivation

The motivation behind the study is driven by the need to understand the interplay between institutional settings and earnings manipulation, especially given the heterogeneity of emerging markets. The paper posits that robust institutional frameworks are critical in fostering transparent financial disclosures.

Suggested Improvements for Motivation:

i. **Deeper Insight into Consequences:** Discussing the broader economic and social consequences of earnings manipulation in emerging markets would provide a stronger motivational basis.
ii. **Policy Relevance:** Highlighting the direct policy implications of the findings could strengthen the motivation section, linking the study’s outcomes to practical policy-making processes.

Policy Implication

The paper offers valuable insights for policymakers aiming to enhance corporate governance standards in emerging economies. The findings emphasize the necessity of robust institutional structures over societal trust in ensuring financial integrity.

Suggested Improvements for Policy Implication:

i. **Concrete Recommendations:** Providing specific policy recommendations based on the study's findings would make this section more actionable.
ii. **Comparative Analysis:** Including a comparative analysis of policy impacts in countries with varying degrees of institutional strength could offer a more nuanced view.

Literature Review

The literature review covers various aspects of earnings management and the role of institutional settings. It cites significant studies that illustrate how institutional frameworks can curb earnings manipulation. The author(s) may consider citing these classic papers on earnings management literature.

i) Beneish, M. D. (1999). The Detection of Earnings Manipulation. Financial Analysts Journal, 55(5), 24-36.

ii) Jones, J. J. (1991). Earnings Management During Import Relief Investigations. Journal of Accounting Research, 29(2), 193-228.

iii) Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1995). Detecting Earnings Management. The Accounting Review, 70(2), 193-225.

iv) Bushman, R. M., & Smith, A. J. (2001). Financial Accounting Information and Corporate Governance. Journal of Accounting and Economics, 32(1-3), 237-333.

Methodology :

While the methodology is robust, utilizing a comprehensive dataset and multiple analytical models, there are areas for improvement:

i) Temporal Dynamics: The study spans 17 years, during which significant global financial events occurred. An analysis accounting for these events (e.g., the 2008 financial crisis) could offer deeper insights.

ii) Endogeneity: The paper employs 2SLS regression to address endogeneity but should provide a more detailed discussion on the selection of instrumental variables and their validity.

iii) **Expanded Dataset**: Including a more diverse range of industries and considering data from the post-2017 period to enhance the robustness of the findings.

iv) **Incorporating Additional Variables:** Including other relevant variables such as corporate governance indices, market maturity, and economic stability to provide a more holistic analysis.

v) **Comparative Analysis:** Conducting a comparative analysis across different emerging markets to identify specific institutional characteristics that most effectively mitigate earnings manipulation.

Conclusion

The paper makes a good contribution by highlighting the importance of robust institutional frameworks in curbing earnings manipulation in emerging markets. However, addressing the above-mentioned concerns and expanding the scope of analysis would enhance the study's impact and applicability.