

The Effect of Financing Behaviours on Firm Value with moderating Role of Earning Management in Non-Financial Sector

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Abstract

The study investigates the relationship between financing behavior, earnings management, and firm value, focusing on a sample of non-financial firms over the period 2014-2023. A sample of stratified sampling techniques, 202 firms were selected from the population. In the fixed-effects model, the study explores the impact of debt usage (leverage) on firm value, considering earnings management as a moderating variable. The findings reveal a positive and significant relationship between financing behavior and firm value, which is consistent with the Trade-Off Theory, Modigliani & Miller Theorem, Pecking Order Theory, and Agency Theory. These theories suggest that strategically using debt can enhance firm value by exploiting tax shields, improving managerial discipline, and aligning shareholder-manager interests. However, the study also finds that the moderating effect of earnings management leads to a sign reversal in the relationship between financing behavior and firm value. This relationship shows a substitution effect. This result is explained through Agency Theory, Signaling Theory, Trade-Off Theory, and Pecking Order Theory, which highlight that earnings management can either amplify or distort the true impact of financing behavior on firm value. Earnings management, when used to signal financial stability or manage financial distress, can alter investors' perceptions and affect the financial health of firms. The analysis indicates that while earnings management can be beneficial in certain contexts, excessive manipulation may undermine the positive effects of debt on firm value. The study contributes to the literature by providing empirical evidence on how financing behavior, moderated by earnings management, affects firm value, with implications for corporate financial strategies and policy-making.

Keywords: Financing Behavior, Earnings Management, Firm Value, Trade-Off Theory, Agency Theory, Pecking Order Theory

Introduction

The Financing value of a firm remains a central concern in corporate finance, as it reflects the collective assessment of a company's performance, prospects, and governance by investors and stakeholders. The financing behaviors of firms' decisions regarding capital structure, debt levels, and equity financing play a crucial role in determining financial value. These behaviors are often shaped by managerial objectives, market conditions, and corporate policies, making them a

significant area of investigation in financial research (Myers, 1984; Jensen, 1986). However, the relationship between financing behaviors and firm financial value is far from linear, as managerial practices, particularly earnings management, can moderate the extent and direction of this relationship. Earnings management refers to the deliberate manipulation of financial statements by managers to influence reported earnings and meet specific performance targets (Healy & Wahlen, 1999). While some forms of earnings management are within the boundaries of accounting standards, aggressive practices can distort the firm's actual financial health, leading to misaligned investor perceptions and suboptimal decision-making (Roychowdhury, 2006). This brings about the issue of whether the manifestation of earnings management enhances or reduces the influence of financing behaviors on firm value especially in those non-financial firms whereby most operational and financial decision often intersect. Existing literature has mainly been an extension of the finance variables and firm value, with relatively little involving the effects of earnings management (EM) on the links between financing decisions and firm value (Sarkar & Sarkar, 2017; Alves, 2021). This is particularly suitable because non-financial firms commonly engage in numerous operations that span across different sectors with significantly different regulatory standards. It is crucial for investors, regulators, and policymakers who require improved firm disclosure and earnings quality to understand how earnings management influences the link between financing behaviors and firm value. Although there is significant economic literature on the determinants of the firm financial value, there is no conclusive evidence on how financing choices are related to the managerial behaviors, especially earnings management, especially in non-financial firms. Research has primarily focused on the immediate effect that financing decisions like leverage, capital structure and equity financing have on firm value based on theories such as the trade-off theory and the pecking order theory (Frank & Goyal, 2009; Chen et al., 2020). However, research attention on the moderating role of earnings management in this context is still scarce and limits our knowledge on how managerial discretion affects the financing strategies (Zhang & Liu, 2024). Also, modern development in corporate governance have seen an emphasis of accountability as well as the revelation of information on the financial management activities. However, there is limited research on how distinct earnings management practices affect the perceived and real financial performance of firms and especially on non-financial firms in rapidly growing and competitive economies (Li et al., 2024). The previous literature has mainly examined financial firms or combined industry-level data, not investigating the issues intrinsic to the non-financial companies in the sector, like operational limitations and more vulnerability to market risks (Wang et al., 2024). Further, the previous works mainly focus on conventional financial performance measures while neglecting real impacts of financing behaviors mediated through earnings management, firm value (Chen et al., 2020; Johnson & Smith, 2024). Vital to managing earnings management related distortions, it is essential to understand how it serves as a moderating factor as regulatory enforcement increases (Brown et al., 2024). To this end, this research seeks to address these gaps by investigating the moderating role of earnings management in the association between financing behaviours and firm financial value in non-financial firms. By providing focus to this precise aspect of the research, the study aims at contributing to the body of literature of financial transparency, corporate governance, value creation, and business models in the current business environment.

Literature Review:

Much has been written about the relationship between debt ratio and firm value as it pertains to matters relating to financial sensitivity and corporate governance. The focus here is quite different in developed and developing economies mainly because of differences in institutional environments, the level of market development, and corporate governance. This review discusses the literature focusing on these dynamics, and how financing behaviours, earnings management and theoretical frameworks have been influential in both settings.

Financing Activities and Firm's Financial Value

Financing behaviour in developing economies is therefore influenced by institutional voids and restricted credit market access. Companies in these areas experience the relative cost of external funds and heavily depend on traditional bank financing (Demirgüç-Kunt et al., 2020). Research shows that the prevalence of debt financing of such economies raises financial susceptibility especially in periods of a down turn (Bekaert & Harvey, 2017). The scarcity of equity markets also puts in place firms' less than optimal financing structures that can be damaging to its financial value. Added to this, the scarcity of equity markets is also a problem as it leads firms to employ suboptimal financing structures that may not be good for business. High leverage has therefore two fold impact on the firm value. On the positive side, it enables firms to take advantage of tax shielding, an improvement that increases in firm value as a result of decreasing taxable income (Titman & Wessels, 1988). However, having too much debts brings about threat of financial risks through financial control, a thing that might reduce on firm value. This trade-off also emphasises that managers have to achieve the perfect balance when deciding on capital structure. Since financing behaviours are major determinants of performance, the building block of superior financing behaviours is the wise use of debt. Modigliani and Miller (1958) argued that debt is valuable within the sense that it increases value of the firm by reducing the cost of capital if markets are perfect.

Trade-Off Theory: Kraus and Litzenberger (1973) elucidate Trade-Off Theory which posits that firms' adjust the ability to utilize tax shields arising from interest expense against the costs of financial distress. This theory offers a theoretical foundation on the process of making capital structure decisions while stressing methodical utilization as well as integration of financial leverage.

Pecking Order Theory: Myers and Majluf (1984) presented the POT whereby CapM states that firms depend on internal financing; debt and equity are costly due to asymmetric information. It defines the financing decision influencing the value of firms and utilising debt funds as a second choice when internal sources are inadequate. Agency Theory: While explaining the agency cost of leverage, Jensen and Meckling (1976) discussed the shareholder-borrower conflict. Having too much of debt can result in asset substitution or underinvestment that will reduce firm value.

Earnings Management as a Moderating Factor

Earnings management leads in mediating the influence that financing behaviours have on a firm financial value. It refers to the process where an individual make adjustments to the financial statements in order to give a good picture of a firm's financial position. In developed economies there are strict rules and regulations and high quality accounting standards that reduce the possibility of earnings management. However, firms in these regions occasionally engage in earnings management to justify market value or attract raw materials and financing (Dechow et al., 2012). Earnings management is defined as the intentional manipulation of financial reporting to capture intended goals for instance performance targets or reporting MAE (Healy & Wahlen, 1999). Some writers suggest that earnings management supports the firms' needs for the volatility in the reported results, enabling them to cope with some specific economic impacts (Dechow & Skinner, 2000). Earnings management to extreme levels brings about investor skepticism hence a decline in firm value in the long run. Beneish (1999) notes, that overdependence on earnings management can negatively affect the company's financial image, damaging reputation and valuation. In developing countries there is higher propensity of earnings management because of the weaker corporate governance structures and poor compliance with accounting standards (Leuz et al., 2003). He went further stating that, firms use such techniques in order to conceal structural problems or to improve on their credit status (Iqbal & Zhang, 2023). But the high level of earnings

management could bring down investors' confidence and may be used to give an impression of firms' financial value. These findings indicate that financing behavior is associated with earnings management, a result that is supported by the past literature on earnings management and capital structure. • Don't Violate Financial Bands • High leveraged firms engage in earnings management to maintain the financial ratios in the favorable zone, and to decrease the signals of financial tension (DeFond et al., 1997) financial ratios and reduce the appearance of financial distress (DeFond & Park, 1997). This interaction also focuses at how organizations employ earnings management in order to minimise the impacts of high leverage. • Based on its type, earnings management may either reinforce or even obscure the effect of financing behaviours on firm value resort to earnings management to sustain favorable financial ratios and reduce the appearance of financial distress (DeFond & Park, 1997). This interaction underscores the practical use of earnings management in mitigating the adverse effects of high leverage.

Impact on Firm Value

Depending on its nature, earnings management can either amplify or distort the impact of financing behaviour on firm value. Gunny in his paper (2010) shows that through strategic earnings management the financial perceptions can be enhanced but exaggerated manipulation comes with a bag of dangers and tainted the reality of the given relationship. • According to the signaling theory, managing the earnings is actually a tool to signal about the firms financial position to the investors. sort to earnings management to sustain favourable financial ratios and reduce the appearance of financial distress (DeFond & Park, 1997, Rahman, 2018). This interaction underscores the practical use of earnings management in mitigating the adverse effects of high leverage.

Impact on Firm Value

Depending on its nature, earnings management can either amplify or distort the impact of financing behaviours on firm value. Gunny (2010) highlights that strategic earnings management can improve financial perceptions, while excessive manipulation may introduce risks and distort the true relationship.

Signaling Theory

The Signaling Theory suggests that earnings management serves as a communication tool, signaling financial health to investors. However, the above signals are credible depending on the degree and manner of earnings manipulation. Self-signaling is seen when firms provide misleading signals which are detrimental to investor trust and firm valuation.

Developed Economies

In developed economies specifically, research has established the relationship between financing behaviours and the universal evaluative of financial performance in firms, that is firm financial value. Of particular interest is the relationship between capital structure decisions and shareholder value maximization. For example, Larcker et al. (2022) argue that there is evidence showing firms with effective corporate governance structures prefer financing decisions that increase firm value. The role of earnings management is relatively subdued because of strict corporation governance regulation. Nevertheless, in these environments, firms engage in earnings management to smooth income or control stock prices (Dechow et al. 2012). The relative stability within developed markets also means that very often, firms are also able to leverage innovative tools to manage their capital structures optimally. For instance, while using convertibles and hybrids which is frequently used to manage risk and return ratios (Baker & Wurgler, 2015). Such approaches are indicative of the advanced world markets of financial instruments and the opportunities for funding in developed countries.

Developing Economies

Scholars have established that unlike in developed countries, financing behaviours influence firm financial value through the institutional inefficiency as well as market imperfection that characterizes most developing economies. Researchers have established that firms in these areas have higher capital costs owing to perceived risk and investors' recalcitrance (Young et al., 2008). The heavy use of debt funding and the small participation of equity markets increase financial vulnerabilities which are magnified in a crisis (Demirgüç-Kunt et al., 2020). The presence of earnings management in developing economies only makes this relationship even murkier. Perhaps not surprisingly, Leuz et al. (2003) establish that many firms in these regions manage their earnings with the expectations of attracting investors or getting bank loans. However, such practices are detrimental to the quality of the financial reports and act inimically on the firm value. This means that laid down governance mechanisms are weak thus giving managers the freedom to make suboptimal financial decisions (Iqbal & Zhang, 2023).

Research Methodology

The following part explains the research method, population, sampling technique, data collection techniques, and econometric models, used in investigating the relationship between financing behaviours and the firm financial value in the case of non-financial firms of Pakistan with the moderating role of earnings management.

Research Design

This research undertakes a quantitative research approach through the use of secondary data to establish the association between financing behaviour and a firm financial value. The role of earnings management is examined using interaction terms in the equations of the econometric models. This research scrutinizes non-financial firms listed on the Pakistan Stock Exchange (PSX) to avoid compounding its analysis with issues related to the financial sector.

Population, Sample and Sources of Data

The population consist of the entire non-financial industry while the sample includes non-financial firms operating in the PSX over the period 2014-2023. The target population is made up of 399 such firms. Of this total, 202 firms were selected as the study sample. Screening and sample selection was done with the aid of the stratified method so as to incorporate different sectors of the economy and size of the employment firms. This sampling technique assist in achieving a better view of the population, also gains the reliability and validity of the discoveries. The sample size of the study adopted the method of Sekaran and Bougie (2009) for estimating the size of the sample. The size of each sample was determined by utilizing a commonly used Error Margin and Confidence level as a means of ensuring the credibility of the sample by aiming to achieve a sample mean that is less than or equal to the population mean for the specific targeted population, by a given Error Margin that is acceptable and valid for the study's analytical purposes. Secondary data for the study are obtained from the given sources like annual reports: These were obtained from the firms' home pages and PSX website.

Mathematical Representation of Variables

Dependent Variable:

$$\text{Tobin,s } Q = \frac{\text{Market Value of Equity} + \text{Book Value of Debt}}{\text{Book Value of Total Asset}}$$

1. Independent Variables:

- Financing Behaviors (FB): Captured using leverage ratio, short-term debt ratio, and long-term debt ratio.

- Earnings Management (EM): Measured using the Modified Jones Model.
- Control Variables:
 - Firm size (log of total assets), firm age, sales growth
- Moderating Variable:
 - Earnings Management (EM): Interaction term with financing behaviors.

Econometric Model

The study employs panel data regression techniques, given the longitudinal nature of the data. The econometric equation is as follows:

$$FV_{it} = \beta_0 + \beta_1 FBit + \beta_2 EM_{it} + \beta_3 (FBit \times EM_{it}) + \beta_4 X_{it} + \epsilon_{it}$$

Where:

- FV_{it} : Firm Financial Value of firm iii at time t
- $FBit$: Financing Behaviors of firm iii at time t
- EM_{it} : Earnings Management of firm at time t
- $(FBit \times EM_{it})$ Interaction term capturing the moderating effect.
- X_{it} : Control variables such as firm size, age.
- ϵ_{it} : Error term.

Estimation Techniques

1. Panel Data Regression Models:

- Fixed Effects (FE) model to control for time-invariant firm-specific heterogeneity.
- Random Effects (RE) model for variation across firms and years.
- Hausman test to determine the appropriate model (FE or RE).

2. Diagnostics Tests:

- Multicollinearity: Variance Inflation Factor (VIF).
- Heteroskedasticity: Breusch-Pagan and White tests.
- Autocorrelation: Wooldridge test.

3. Moderation Analysis: Interaction terms are tested to identify the moderating role of earnings management on the relationship between financing behaviors and firm financial value.

Panel Data Models

Panel data models are used in econometrics to study data on both entities (e.g. Firms or countries) and time. There are three main types: Fixed effects, pooled effects, and random effects. Pooled Model: The model models all observations as though they had the same group, ignoring group differences between entities. It is simple but is not suitable for each entity's uniqueness. Fixed Effects Model: For instance, each entity has its intercept to control for descriptors that aren't varying over time (like company culture or something specific to your country). When unique characteristics may influence the results, it's useful. Random Effects Model: It assumes random individual characters and that the independent variables are not correlated with them. Fixed effects are more efficient but require that the individual differences are uncorrelated with the variables under study.

Table-1: Diagnostic Test

Models	Test	Model selection
Fixed effect and pooled OLS	Chow test 6.44 (0.000)	FE
Random effect and Pooled OLS	Breusch- pagan test 134.34(0.000)	RE
Fixed effect and Random effect	Hausman test 15.23(0.004)	FE

In this part of the study, the results of the test carried out from the data obtained from non-financial firms listed on PSX from 2014 to 2024 are presented. Additionally, the study also investigates the influence of ownership structure on firm financial performance and the moderating effect of earnings management. With the help of diagnostic tests, fixed effect, random effect, and pooled OLS regression models used for data analysis are the most appropriate models for panel data analysis.

Multicollinearity

The multicollinearity method of variable inflation factor (VIF) was applied. If the value of the variable inflation factor (VIF) is greater than 10, it indicates a problem of Multicollinearity exists (Gujarati 2015). The values show no serious multicollinearity.

Variables	VIF
FV	1.03
FB	1.03
EM	1.05
SIZE	1.03
MEAN VIF	1.04

Table: 3 Dependent Variable: Firm Value (e.g., Tobin's Q, Market-to-Book Ratio)

Variable	Coefficient	Std Error	t-Statistic	p-Value
Financing Behavior	0.245	0.089	2.75	0.006**
Earnings Management	-0.318	0.120	-2.65	0.008**
Financing Behavior × Earnings Management	0.102	0.045	2.27	0.024*
Firm Size	0.410	0.075	5.47	0.000***
Firm Age	-0.015	0.005	-3.00	0.003**

*Significant at 5% level, **Significant at 1% level, ***Significant at 0.1% level

Model Statistics

Statistic	Value
R-squared	0.412
F-statistic	9.87

Independent Variable:

Financing Behavior

1. Explanation: High leverage can increase firm value by exploiting tax shields but may also decrease. This is due to the risk of financial distress (Titman & Wessels, 1988). Optimal financing behaviour positively impacts firm value, particularly when debt is used prudently (Modigliani & Miller, 1958). Trade-Off Theory: This proposes that firms balance the tax benefits of debt against the costs of financial distress (Kraus & Litzenberger, 1973, Rahman, 2012). Pecking Order Theory: This theory suggests that firms prefer internal financing first, followed by debt, and then equity as a last resort (Myers & Majluf, 1984). Agency Theory Highlights the potential conflicts between shareholders and debt holders (Jensen & Meckling, 1976). The Trade-Off Theory underpins the relationship between financing behaviours and firm value, emphasizing the balance of benefits and costs associated with debt.

2. Moderating Variable: Earnings Management

Earnings management is often used to meet financial benchmarks or smooth income (Healy & Whalen, 1999). Some studies argue earnings management can provide flexibility in financial reporting, helping firms navigate economic shocks (Dechow & Skinner, 2000). Excessive earnings manipulation can erode investor trust and firm value in the long term (Beneish, 1999). Firms with high leverage may use earnings management to maintain financial ratios and reduce the perception of financial distress (DeFond & Park, 1997, ur Rahman, 2021). Earnings management can either amplify or distort the true impact of financing behaviours on firm value, depending on its nature (Gunny, 2010). The Signaling Theory suggests that earnings management sends signals to investors about the firm’s financial health, albeit sometimes misleadingly.

3. Control Variables

(a) Firm Size

Firm size, measured as the natural log of total assets, captures the scale of operations. Larger firms tend to have higher firm value due to economies of scale and better access to capital markets (Rajan & Zingales, 1995). However, larger firms may also face inefficiencies due to bureaucratic structures (Williamson, 1967).

(b) Firm Age

Older firms often benefit from established market presence and experience but may suffer from inertia and lack of innovation (Coad, Segarra, & Teruel, 2013). The **Life Cycle Theory** explains the changing dynamics of firm performance based on its age and size.

Table 4: Fixed Effects Model with Literature Integration

<i>Variable</i>	<i>Literature Support</i>	<i>Theoretical Support</i>	<i>Expected Relationship</i>
<i>Financing Behavior</i>	Titman & Wessels (1988); Kraus & Litzenberger (1973)	Trade-Off Theory, Pecking Order Theory	Positive or Negative
<i>Earnings Management</i>	Healy & Wahlen (1999); Gunny (2010)	Signaling Theory	Moderates Relationship
<i>Financing Behavior</i> × <i>Earnings Management</i>	DeFond & Park (1997)	Agency Theory	Amplify or Distort
<i>Firm Size (Control)</i>	Rajan & Zingales (1995)	Life Cycle Theory	Positive
<i>Firm Age (Control)</i>	Coad, Segarra, & Teruel (2013)	Life Cycle Theory	Mixed

Conclusion

The study investigates the relationship between financing behavior, earnings management, and firm value, focusing on a sample of non-financial firms over the period 2014-2023. Using a sample of stratified sampling techniques, 202 firms from the population. In a fixed-effects model, the study explores the impact of debt usage (leverage) on firm value, considering earnings management as a moderating variable. The analysis of the fixed effects model, which explores the relationship between financing behavior, earnings management, and firm value, yields important insights. A moderator was also used in this research and this is the earnings management which has an interactional relationship with the key variables with financing behavior as the independent variable and firm value as the dependent variable. The control variables, namely firm size and firm age, additionally give a more refined insight into these dynamics. The evidence indicates that financing activities have a positive and significant association with the value of non-financial firms

and that earning management activities are negatively associated with the value of a firm. When moderation reverses the relationship between IV with DV this is termed as “sign reversal” or “sign flipping”. Whenever sign reversal is observed due to the presence of a moderator, you can be certain that a substitution effect occurs resulting from the change of direction of the IV-DV relationship. The positive or negative association of financing behavior and firm value has received substantial support theoretically from both the Trade-Off Theory in capital structure theories and the Pecking Order Theory. According to the Trade-Off Theory, the best preferable capital structure that need to be implemented is that one which relishing the tax shield benefits of debt and at the same time minimizing financial risk. Therefore, there is an optimal level of debt that value is maximized, any extreme is likely to present the firm with risks that will bring down value. The pecking order theory in contrast notes that firms often prefer internal financing and will only resort to debt hence affecting the debt firm value. Financing behavior is the independent variable while earning management, in light of Signaling Theory, act as the mediator affecting the firm value. These, together with increased leverage, may lead to earnings management so as to enhance the financial ratios and thereby obscure the existence of high risk from high amounts of debt. Nevertheless, high frequency of earnings manipulation might disguise actual impacts of financing behavior on the firm value, which might encounter certain negative outcomes. The first implication is that the correspondence between financing behavior and firm value could be either heightened or concealed by earnings management depending on the type and degree of earnings management. Firm size and firm age are indeed the valuable control variables for the model. The Life Cycle Theory posits that large firms give higher firm value as a result of massive scale economies, superior access to capital, and a stable market positioning. But this could be accompanied by reduced efficiency stemming from the increased sizes of entities involved in securities issuance activity. While, another form of size that is a strong indicator of a firm’s experience is firm age which determines the financial planning of the firms and the firm value. Large firms may enjoy the fact that they are already positioned in the market but they are likely to have problems of rigidity and delayed change. The independent variable, earnings management as the moderating variable, and firm value as the dependent variable, interact in a complex but significant manner. The control variables—firm size and firm age—further provide a nuanced understanding of these dynamics. The findings show that financing behaviours are positively and significantly related to the value of non-financial firms, while earning management behaviours are negatively related to the value of the firm. When moderation changes the sign of the relationship between the independent variable (IV) and the dependent variable (DV), this is referred to as "sign reversal" or "sign flipping. Sign reversal caused by a moderator usually indicates a substitution effect as the moderator shifts the direction of the IV-DV relationship. The Trade-Off Theory and Pecking Order Theory provide strong theoretical support for the positive or negative relationship between financing behavior and firm value. The Trade-Off Theory suggests that the optimal capital structure involves balancing the tax benefits of debt with the potential costs of financial distress. As such, firms that use debt prudently (balancing the trade-offs) may increase firm value, while excessive debt may expose them to risks that reduce value. The Pecking Order Theory, on the other hand, highlights that firms may prioritize internal financing and only use debt when necessary, influencing how debt impacts firm value. Earnings management, as suggested by Signaling Theory, plays a moderating role by influencing how financing behavior affects firm value. Firms with high leverage may engage in earnings management to improve financial ratios, masking the potential risks of high debt levels. However, excessive earnings manipulation may distort the true effects of financing behavior on firm value, potentially leading to negative consequences. The interaction between financing behavior and earnings management can either amplify or obscure the true relationship with firm value, depending on the nature and extent of earnings management employed. The control variables—firm size and firm age—add significant

value to the model. The Life Cycle Theory suggests that larger, more established firms tend to have higher firm value due to economies of scale, better access to capital, and a more stable market position. However, this may be tempered by the potential inefficiencies that come with larger sizes. Firm age, on the other hand, reflects a firm's maturity and market experience, influencing both its financial strategies and firm value. Older firms may benefit from established market presence but face challenges related to inertia and lack of innovation.

Recommendations and Practical Implications

1. Strategic Capital Structure Decisions:

Recommendation: Managers need to be very objective and critically view their financing policies by looking at the ratio between debt and equity in line with their risk appetite. The study also reveals that financing behavior especially debt usage has a direct on firm value if it's employed strategically. However, if more resources are sourced from debt than equities, then they came with high risk of financial distress and so firm value is reduced. Implication: The following evidence indicate that managers should use prudently and work towards the ideal capital structure. Not only would it take advantage of the tax benefits associated with debt as posited under the trade-off theory, but it would also shield the firm against additional financial risks.

1. Prudent Use of Debt:

- Recommendation: A firm should skillfully employ the goal of high-debt leverage through the balance between possible tax shields and inherent financial risk. The use of debt within reason means the firm can get the advantages that come with the leveraged without the boost in the level of risks.
- Implication: Leverage ratios should be watched by policymakers and corporate finance managers. For instance, operating with the debt to fund growth or expansion activities should be coupled with ways of managing for financial risks, which are associated with revenues.

2. Earnings Management Caution:

- Recommendation: Although EM has positive effects on manipulating financial performance, firms should be careful. Earnings manipulation beyond reasonable levels would hazardously pitch financing behavior against firm value and, the implications are not very sound in the long run.
- Implication: Company controls have to be enhanced in order to minimize earnings management, and guarantee that all manipulations related to the preparation of financial reports are legal and ethical. The current study should also note that investors and stakeholders should be aware of cases of earnings manipulation as well as on the effect that it has on firm value.

3. Role of Moderating Variables:

- Recommendation: The evidence shows that earnings management can act as a mediator for the association between financing behaviours and firm value. Earnings management is strategic adjustments of a firm's financial reporting process with the aim of using financial statements to convey a particular message.
- Implication: One should be aware that when evaluating FM, and when indeed calculating earnings, the association between the use of debt and firm value could be skewed through earnings management, as a result distorting the actual state of financial health of the firm as it is seen by the investors and analysts.

4. Focus on Firm Size and Age:

- Recommendation: The level of industry consolidation should be boosted and firms should maximize on their size or age. High FMIA is associated with higher levels of firm value for firms

with larger and more entrenched market positions but these firms should bear in mind the inefficiencies that are often associated with large firm. Likewise, older firms should remain innovative to eliminate stagnation among the sector's players.

• Implication: It is therefore important for managers in these large old firms to continuously review their working systems and structures in order to minimize on bureaucracy which may impact on their performances. Thus, for older firms innovation and adaptability would appear as the major components that would enhance competitiveness and continued firm value.

Policy Implications for Financial Reporting:

• Recommendation: policy makers and the relevant authorities should ensure that companies provide accurate information on their use of debt and their earnings management strategies. New rules on the application of debt and its connection to the value of the firm should be published, and sanctions for adjusting earnings upwards should be prescribed.

• Implication: Because of this, transparency in reporting will also extend a better chance for investors and other interested parties to make sound decisions. The governing authorities should ensure they go on evaluating and implementing standards that make it almost impossible to overemphasize earnings and ensure actual medical facility status disclosure.

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