# Using accrual-based model to test the relationship between earnings management and corporate performance in the Vietnamese stock market

Ha Linh Nguyen[1], Dao Thi Nguyen[2], Thi Ngoc Phuong Le[3], Linh Thuy Nguyen[4], Thu Thi Minh Vu[5*]

[1,5]*School of Accounting and Auditing, National Economics University, Hanoi, Vietnam.*
[2]*Faculty of Finance, Banking Academy of Vietnam, Hanoi, Vietnam.*
[3]*Posts and Telecommunications Institute of Technology, Vietnam.*
[4]*Thuongmai University, Hanoi, Vietnam.*

Corresponding author: Thu Thi Minh Vu (*Email: vuminhthu.neu@gmail.com*)

## Abstract

The study in this paper examines the influence of earnings management through accruals on the performance of Vietnamese stock market firms based on a panel of 330 HOSE-listed non-financial companies from 2018 to 2022. Discretionary accruals, estimated from the Modified Jones Model, are the proxy for earnings manipulation. Firm performance is gauged by both accounting-based indicators, Return on Assets (ROA) and Return on Equity (ROE), and a market-based measure, Tobin's Q. Employing fixed-effects panel regression to control for firm-specific heterogeneity and macroeconomic volatility, the findings indicate a significant and consistent negative association between discretionary accruals and all performance measures. Robustness tests using lagged accruals, Kothari's model performance-matched approach, and subsample tests by size of firm confirm the findings. These results suggest that earnings management comes at the cost of profitability and firm value, particularly for smaller firms that have poorer governance. The research contributes to the literature on financial transparency in emerging markets by providing empirical evidence on the costs of earnings manipulation. Implications are drawn for policymakers, auditors, and investors aiming to strengthen market discipline and reporting quality in Vietnam's capital market.

**Keywords:** Corporate performance, discretionary accruals, earnings management, financial reporting quality, return on assets, return on equity, Tobin's Q.

## 1. Introduction

The integrity of financial reporting is critical to the efficient functioning of capital markets, particularly in emerging economies where institutional frameworks are still evolving. Key threats to transparency include earnings management—where managers exploit accounting discretion to present a picture of firm performance more favorably than is warranted by underlying fundamentals. While earnings management is not illegal, its abuse can skew resource allocation, confuse investors, and undermine trust in financial disclosures.

This issue of earnings manipulation is becoming more relevant in Vietnam as its capital markets mature and more investors enter the market. The Ho Chi Minh Stock Exchange (HOSE) has grown large and sophisticated since its inception, but its growth has also exposed weaknesses in governance, enforcement, and accounting practices. A spate of major financial reporting scandals has highlighted aggressive accrual-based earnings management that often reflects short-term incentives to meet earnings benchmarks or maintain stock valuations. The relevance is there, but the long-term consequences of such practices on corporate performance are not explored in the Vietnamese context.

This study fills that gap by empirically examining the association of accrual-based earnings management with corporate performance across a large panel of non-financial firms listed on the Hose between 2018 and 2022. More specifically, it uses the Modified Jones Model - a widely used tool in accounting research - to estimate discretionary accruals - a proxy for earnings management [1, 2]. Unlike real earnings management, which changes business decisions (e.g., delaying R1 and 1D), accrual-based manipulation adjusts reported earnings through accounting choices and is thus a useful lens for assessing financial reporting behavior.

Evaluation of corporate performance is based on accounting indicators such as Return on Assets and Return on Equity, and a market measure such as Tobin's Q. This dual approach allows for a detailed assessment of how earnings management influences internal profitability and external market valuation.

Methodologically, the study employs panel data regression with fixed effects to control for firm-specific characteristics and time trends. Results indicate a statistically and economically negative association between discretionary accruals and all three performance indicators. The robustness of this relationship is confirmed through additional tests, including the use of lagged accruals, performance-matched models [3] and firm-size subsample analysis. Our research questions are follows:

*Research question 1*: To what extent does accrual-based earnings management, as measured by discretionary accruals, affect corporate performance in Vietnamese listed firms?

*Research question 2*: Are these effects consistent across different performance dimensions, including operational profitability (ROA, ROE) and market valuation (Tobin's Q)?

The study contributes to the literature in several important ways. First, it expands empirical evidence on earnings quality and firm outcomes in frontier markets, where regulatory enforcement may be weaker and financial opacity is more common. Second, it informs regulators and policymakers by identifying patterns of financial misreporting that may undermine investor protection. Third, it supports investors and analysts in making more informed decisions by highlighting the performance risks associated with earnings manipulation.

## 2. Literature Review

### 2.1. Theoretical Foundations of Earnings Management and Corporate Performance

#### 2.1.1. Earnings Management

The use of accounting numbers by managers to mislead stakeholders or influence contractual provisions that are dependent on reported accounting figures is called earnings management [4]. Based on an agency theory perspective Jensen and Meckling [5] a separation between ownership and control creates incentives for managers to pursue private benefits, which may manifest in the form of earnings management to meet performance objectives, earn bonuses, or manage investor expectations. In weak investor protection emerging markets and weaker external monitoring institutions, such potential for opportunism is typically higher.

Two broad classes of earnings management are accrual-based and real activities-based. Accrual-based earnings management refers to the modification of accounting assumptions and estimates (e.g., depreciation rate, bad debt reserve) without altering the underlying cash flows. Real earnings management affects operating decisions, such as cutting R&D or postponing discretionary expenditures. The present study focuses on the former due to its greater relevance in the context of reporting quality assessment.

In order to detect earnings management via accruals, researchers usually employ models that partition the total accruals into their discretionary (manipulated) and non-discretionary (regular) components. The most commonly used are the Jones Model [2] and its extension, the Modified Model [1]. The Modified Model adjusts for receivables change, improving discretionary accrual estimate precision, and has been empirically validated in numerous various environments in developed and emerging markets. Kothari et al. [3] introduced a performance-matching adjustment to further control for firm-specific economic conditions that some studies have found useful in reducing estimation bias.

#### 2.1.2. Corporate Performance Metrics

Corporate performance is traditionally gauged using both accounting-based metrics, such as Return on Assets (ROA) and Return on Equity (ROE), and market-based metrics, such as Tobin's Q. While ROA and ROE yield indications of profitability and operational efficiency, Tobin's Q yields an indication of market valuation and investor perceptions of future growth. The metrics are complementary to one another in giving indications of the overall health and viability of firms. Cornett et al. [6] has established that levels of aggressive earnings management are typically found to be inversely associated with such performance metrics because they can mask underlying inefficiencies or declining fundamentals.

*2.2. Empirical Evidence on the Earnings Management–Performance Relationship*

More empirical evidence reveals that earnings management, particularly opportunistic and aggressive earnings management, is not favorable for long-term corporate performance. For instance, Klein [7] found that firms with weak corporate governance tend to engage more in earnings manipulation and thus are valued lower. Similarly, Chan et al. [8] find evidence that firms with high discretionary accruals perform poorer subsequent stock returns. In emerging markets, Chen et al. [9] found that earnings management activities significantly drain firm value due to weak investor protection and poor external monitoring.

In Vietnam, research on the subject remains scarce but is increasingly on the rise. Nguyen and Nguyen [10] investigated the relationship between earnings management and firm value and discovered that companies with high discretionary accruals perform less well in the future. Tran [11] emphasized that manipulation of earnings occurs more often in companies with concentrated ownership and financial distress. However, such studies rely on reduced-form models or cross-sectional observations without panel data design and control of firm heterogeneity utilized in this study.

Despite increased research attention, Vietnam's stock market dynamics regarding the relationship between earnings management and corporate performance are not well developed in prior literature. Most prior studies are descriptive, sample small firms, or exclude firm fixed effects and time-varying controls. This study bridges the above gaps by employing a five-year panel data approach from 2018 to 2022 on the non-financial firms listed on HOSE. The application of the Modified Jones Model enhances the precision in estimating discretionary accruals, while applying accounting and market-based performance measures provides a complete picture of the implications of earnings management.

Through reference to global methods and their refinement to the setting of Vietnam's institutional, regulatory, and economic environment, the study advances the broader literature on financial reporting quality in emerging market economies. It further provides empirical evidence to inform policy reforms, investor protection, and auditing procedures that will promote higher transparency and performance accountability within Vietnam's business community.

## 3. Methodology

This section outlines the methodological framework adopted to examine the relationship between earnings management and corporate performance among Vietnamese listed firms. It details the sample selection process, data sources, variable construction, and econometric techniques used for empirical testing and robustness verification.

*3.1. Sample Selection and Data Collection*

The sample consists of publicly listed non-financial firms listed on the Ho Chi Minh Stock Exchange (HOSE) between 2018 and 2022, spanning five years. Financial institutions (banks, insurance, and investment institutions) have been excluded because they have a dissimilar regulatory structure, financial organization, and accounting treatment. The ultimate sample consists of 330 firms with 1,650 firm-year observations.

The data are collected manually from firms' audited financial statements, annual reports, and website disclosures on the HOSE website and in the TaiViet (Vietstock) financial database. The key financial data needed for calculations of accruals and performance measures are checked for completeness and consistency.

*3.2. Research Design*

This study uses a quantitative approach employing panel data analysis to examine the impact of accrual-based earnings management on the performance of Vietnamese listed firms. The research design allows for the control of firm-specific and time-invariant variables, which increases the reliability of causal inferences. The main objective is to measure the size of discretionary accruals as a proxy for earnings management and to test the effect on accounting-based and market-based performance measures across different periods.

The following panel regression framework is utilized in testing the correlation between earnings management and firm performance:

$$Performance_{i,t} = \alpha_0 + \alpha_1 DA_{i,t} + \alpha_2 SIZE_{i,t} + \alpha_3 LEV_{i,t} + \alpha_4 GROWTH_{i,t} + \alpha_5 AGE_{i,t} + +INDUSTRY + \tau_i + \varepsilon + \epsilon_t$$

$$(1)$$

Where:
- Performance$_{it}$: measured by ROA, ROE, or Tobin's Q for firm i in year t.
- DA$_{it}$: measured by Discretionary accruals.
- Control Variables: Firm Size (SIZE): Natural log of total assets; Leverage (LEV): Total liabilities / Total assets; Sales Growth (GROWTH): Annual growth rate of revenue; Firm Age (AGE): Years since establishment; Industry Dummies: To account for sector-specific effects.

*3.3. Variable Measurement*
*3.3.1. Dependent Variables: Corporate Performance*

Three performance measures are used to provide a comprehensive picture:
- Return on Assets (ROA): Net income / Total assets – captures operating profitability.
- Return on Equity (ROE): Net income / Shareholders' equity – reflects return to equity holders.
- Tobin's Q: (Market value of equity + Total liabilities) / Total assets – reflects market valuation relative to assets.

*3.3.2. Independent Variable: Discretionary Accruals (DA)*

Discretionary accruals are proxies for earnings management and are estimated on the basis of the Modified Jones Model Jones [2] which distinguishes between total accruals (TA) and their discretionary and non-discretionary components.

*Step 1: Calculate Total Accruals*

$$TA_{it} = NI_{it} - CFO_{it} \qquad (2)$$

Where NI is net income and CFO is cash flow from operations.

*Step 2: Estimate Non-Discretionary Accruals (NDA) via the Modified Jones Model*

$$\frac{TA_{i,t}}{TA_{i,t-1}} = \beta_0 \frac{1}{A_{i,t-1}} + \beta_1 \frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{i,t-1}} + \beta_2 \frac{PPE_{i,t}}{A_{i,t-1}} + \varepsilon_{i,t} \qquad (3)$$

Where:

- $\Delta REV$: Change in revenue.
- $\Delta REC$: Change in accounts receivable.
- PPE: Gross property, plant, and equipment.
- $A_{i,t-1}$: Lagged total assets.

*Step 3: Discretionary Accruals (DA)*

Residuals from the above regression are discretionary accruals, a proxy for earnings management. All continuous variables are winsorized at the 1st and 99th percentiles to eliminate the impact of outliers.

*3.4. Estimation Method and Robustness Tests*

The most prominent estimation technique is fixed-effects panel regression, which is confirmed by the Hausman test. This test rejects the assumption of random effects due to correlations between independent variables and firm-specific effects. Furthermore, to ensure the robustness of the results, we perform some additional robust tests:

- Alternative performance models are explored using lagged DA.
- Subsample analysis is conducted by ownership structure and size of firms.
- Additional robustness checks include using the Kothari et al. [3] performance-matched model.

## 4. Results and Discussion

*4.1. Descriptive Statistics*

Table 1 displays summary statistics for all the variables of concern in the analysis. The mean discretionary accrual (DA) is approximately 0.082 with a standard deviation of 0.074, suggesting heterogeneity in the size of earnings management among firms. The ROA is 2.7% on average, and Tobin's Q is 1.23 on average, suggesting that firms are valued somewhat above the replacement value of assets on average. Firm size and leverage are extremely heterogeneous, indicating the diversity of the sample in terms of size and financial structure.

**Table 1.**
Descriptive Statistics.

| Variable | Minimum | Maximum | Mean | Std. Dev |
|---|---|---|---|---|
| DA | -0.162 | 0.243 | 0.082 | 0.074 |
| ROA | -0.111 | 0.203 | 0.027 | 0.043 |
| ROE | -0.241 | 0.435 | 0.114 | 0.096 |
| Tobin's Q | 0.34 | 2.91 | 1.23 | 0.58 |
| Size | 11.40 | 16.02 | 13.72 | 1.04 |
| Leverage | 0.11 | 0.94 | 0.51 | 0.21 |
| Growth | -0.32 | 1.45 | 0.14 | 0.29 |

The standard deviation of discretionary accruals (DA) is approximately 0.082, with a standard deviation of 0.074. This reflects an overall moderate level of earnings management over the sample, but also considerable heterogeneity in accrual-based manipulation practices across firms. The positive mean DA indicates that, overall, firms overstate earnings via discretionary accruals, as seen in prior research in emerging markets where governance is weaker and managerial discretion is more prevalent. The presence of both positive and negative values (ranging from –0.162 to 0.243) suggests the two-way nature of earnings management, both increasing and decreasing income, based on the incentives of the manager.

Mean Return on Assets (ROA) is 2.7%, and Return on Equity (ROE) is 11.4%, with standard deviations of 0.043 and 0.096, respectively. These value estimates reflect moderate profitability in HOSE-listed firms during the study period, and the spread also reflects substantial firm performance heterogeneity. The negative minimum values for ROA and ROE (–0.111 and –0.241) further indicate that there were firms that experienced negative profitability due to economic slumps, restructuring, or less efficient production processes. Volatility thus provides justification for the use of firm fixed effects in regression models in an effort to mitigate unobservable heterogeneity.

The average Tobin's Q is 1.23, meaning that, on average, firms are traded in the market at a premium relative to asset book value. However, the lowest and highest values are 0.34 and 2.91, indicating that while some firms are undervalued (Q < 1), others enjoy strong investor optimism and are being traded well above the replacement cost of assets. The 0.58 standard deviation supports the notion of sizable cross-sectional variation in market valuation, potentially due to factors such as growth expectations, industry effects, or perceived quality of earnings.

In terms of control variables, firm size (proxies for total assets) ranges from 11.40 to 16.02, with a mean of 13.72, consistent with both small- and large-cap companies in the sample. The high spread implies that the sample includes firms of very disparate sizes, and therefore justifies the selection of conducting size-based subsample analysis in robustness checks. Leverage has a mean of 0.51, implying that, on average, companies are financing slightly more than half of their assets using liabilities. The high maximum value of 0.94 reflects that some firms are highly leveraged, potentially exposing them to financial risk and influencing managerial behavior regarding earnings management.

Sales growth, with an average of 14% and a standard deviation of 29%, is observed to have a high level of dispersion. Growth has been extremely high for some firms (as high as 145%), while others have experienced declines in sales (down to –32%). Volatility is common in emerging markets and can be linked to the position of the company or sectoral shocks in the life cycle. Firm age exhibits moderate dispersion, reflecting a relatively mature sample universe with no extensive impact from business age alone.

Briefly, descriptive statistics confirm the reasonableness of the analytical strategy of the research design. The explanatory high variability between discretionary accruals, performance measures, and financial structures justifies fixed-effects panel regression in controlling for firm heterogeneity. Furthermore, descriptive patterns provide preliminary evidence of potential performance distortion arising from earnings management, which is corroborated in later regressions. These findings underscore the necessity of analyzing the performance consequences of earnings manipulation under accrual-based accounting in the Vietnamese context. Pearson correlation coefficients among the key variables used in the analysis are presented in Table 2. On the other hand, the independent variables of firm size, leverage, growth, and age have relatively low to moderate correlations among each other, indicating the presence of very little overlap in terms of explanatory ability. Of particular note is that no correlation coefficient is greater than the standard cutoff value of 0.5 to evidence multicollinearity issues. This implies that multicollinearity is not a substantial issue in the data, and the regression coefficients are least likely to be skewed by redundant explanatory variables.

**Table 2.**
Pearson Correlation Matrix.

| Variable | DA | ROA | ROE | Tobin's Q | Size | Leverage | Growth | Age |
|---|---|---|---|---|---|---|---|---|
| DA | 1.000 | -0.874 | -0.812 | -0.252 | 0.026 | 0.013 | -0.027 | 0.005 |
| ROA | -0.874 | 1.000 | 0.703 | 0.207 | -0.026 | -0.000 | 0.023 | -0.014 |
| ROE | -0.812 | 0.703 | 1.000 | 0.214 | -0.029 | -0.019 | 0.009 | -0.012 |
| Tobin's Q | -0.252 | 0.207 | 0.214 | 1.000 | -0.014 | -0.003 | -0.006 | 0.005 |
| Size | 0.026 | -0.026 | -0.029 | -0.014 | 1.000 | -0.014 | 0.006 | -0.009 |
| Leverage | 0.013 | -0.000 | -0.019 | -0.003 | -0.014 | 1.000 | 0.043 | 0.032 |
| Growth | -0.027 | 0.023 | 0.009 | -0.006 | 0.006 | 0.043 | 1.000 | -0.000 |
| Age | 0.005 | -0.014 | -0.012 | 0.005 | -0.009 | 0.032 | -0.000 | 1.000 |

## 4.2. Regression Results

Table 3 reports the fixed-effects regression model outcomes of the effect of discretionary accruals on firm performance, controlled for firm size, leverage, growth, age, and industry. The DA coefficient is negative and statistically significant in all three models.

**Table 3.**
Regression Results – Discretionary Accruals and Performance.

| Variable | ROA | ROE | Tobin's Q |
|---|---|---|---|
| DA (Discretionary Accruals) | -0.094*** | -0.218*** | -0.381** |
| Size | 0.012** | 0.023** | 0.087*** |
| Leverage | -0.051*** | -0.117*** | -0.093** |
| Growth | 0.038*** | 0.079*** | 0.052** |
| Age | -0.001 | -0.002 | -0.006 |
| Year & Industry FE | Yes | Yes | Yes |
| R-square | 0.29 | 0.21 | 0.24 |
| Observations | 1,650 | 1,650 | 1,650 |

Note: ***, **, * indicate significance level $p<0.01$, $p<0.05$, $p<0.10$, respectively.

These findings present evidence of an inverse and significant association between corporate performance and earnings management. Specifically, a 1-unit increase in discretionary accruals is associated with a 9.4% decrease in ROA, a 21.8% decrease in ROE, and a decrease of 0.381 in Tobin's Q. The findings are significant and consistent with earlier research that shows manipulated companies tend to underperform due to weak fundamentals and lower investor confidence. The regression results strongly support the hypothesis that earnings management based on accruals is detrimental to corporate performance.

The DA coefficient is strongly negative (p < 0.01) in all three models, ROA, ROE, and Tobin's Q, suggesting a strong negative relationship. This indicates that the higher the earnings manipulation through accruals by the firms, the poorer their operating efficiency and market value are.

The strongest effect is on ROE, which has a coefficient of –0.218 and captures the fact that profitability from equity is particularly vulnerable to manipulation by accruals. This is perhaps because accrual distortions overstate equity returns in the short term but then reverse, so there is greater decline in performance. The dramatic drop in Tobin's Q indicates that investors in Vietnam's market may punish firms that are seen to be less transparent, as per information asymmetry theories.

Control variables show hypothesized signs as firm size is positively correlated with performance, perhaps due to scale efficiencies and greater visibility, while leverage has negative correlations with both accounting and market measures, as expected with financial risk concerns. Growth is positively correlated, consistent with the notion that expanding firms perform better, while firm age remains unrelated, perhaps consistent with a mixed maturity profile among Vietnamese listed firms. Specifically, the inclusion of industry and year fixed effects enables one to control for sector trends and macroeconomic shocks, and thus presents an even more robust case that the results here reflect firm-level reporting behavior rather than broader economic cycles.

These findings corroborate earlier research such as Chan et al. [8] and Chen et al. [9] which provided evidence that earnings management aggressiveness reduces firm value and investor confidence, especially in environments with poor investor protections. In the Vietnamese setting where external auditing and enforcement tools have yet to mature, the findings underscore actual reporting opaqueness costs.

### 4.3. Robustness Tests

To ensure the main results and make them free from model specification bias or endogeneity bias, several robustness tests were conducted. They are: (1) adding a lagged discretionary accruals variable; (2) re-estimating the models with the Kothari et al. [3] performance-matched accruals method; and (3) conducting a subsample analysis by firm size.

### 4.3.1. Lagged Discretionary Accruals

To control for potential endogeneity problems (i.e., reverse causality), the regressions were re-run with lagged discretionary accruals (LagDA) as the primary independent variable. The idea here is that in the preceding period, previous earnings management choices affect current performance and not the other way around.

**Table 4.**
Regression with Lagged Discretionary Accruals.

| Variable | ROA | ROE | Tobin's Q |
|---|---|---|---|
| LagDA | -0.081*** | -0.192*** | -0.341** |
| Controls | Yes | Yes | Yes |
| Firm & Year FE | Yes | Yes | Yes |
| R-square | 0.38 | 0.40 | 0.33 |
| Observations | 1320 | 1320 | 1320 |

The coefficients remain negative and statistically significant at the 1% and 5% levels, verifying the conclusion that earnings management has a lagged but adverse effect on firm performance. This is consistent with the notion that the consequences of manipulation arise with the passage of time, verifying the direction of causality from earnings management to lower performance.

### 4.3.2. Alternative Earnings Management Measure

Subsequently, earnings management was re-estimated using the performance-matched accruals model of Kothari et al. [3] which holds constant firm performance (ROA) while estimating normal accruals. The new discretionary accruals were used in the same regression framework.

**Table 5.**
Results for the first robust check.

| Variable | ROA | ROE | Tobin's Q |
|---|---|---|---|
| DA (Kothari model) | -0.076*** | -0.163*** | -0.312** |
| Controls | Yes | Yes | Yes |
| Fixed Effects | Yes | Yes | Yes |
| R-square | 0.37 | 0.39 | 0.31 |
| Observations | 1650 | 1650 | 1650 |

Although of different specifications, the findings are qualitatively similar. The negative relation of discretionary accruals with firm performance persists, which implies that the findings do not rely on the model. The smaller but still somewhat smaller coefficients may indicate a higher accuracy of the performance-matched approach regarding control for firm fundamentals.

### 4.3.3. Subsample Analysis by Firm Size

To explore potential heterogeneity, the entire sample was split into small and large firms based on the median size of total assets. The model was then estimated separately for each group.

**Table 6.**
Subsample Regression by Firm Size (using Modified Jones Model).

| Group | ROA | ROE | Tobin's Q |
|---|---|---|---|
| Small Firms | -0.112*** | -0.235*** | -0.417*** |
| Large Firms | -0.058** | -0.149** | -0.269** |

The magnitude and intensity of the coefficients are stronger in small businesses, reflecting that earnings management is more adversely effective in small companies. This finding conforms to the consideration that small businesses are more open to less external monitoring, weaker governance systems, and weaker monitoring incentives, making opportunistic reporting more susceptible to remaining undiscovered.

All tests of robustness support the negative and statistically significant effect of earnings management on firm performance. Support for the causal interpretation comes from the use of lagged variables, similar results from alternative estimation models, and size-based subsamples that emphasize differences in susceptibility to earnings manipulation. Together, these tests strengthen the internal validity and generalizability of the study's findings.

In general, the empirical image that is presented is one of strength and coherence: earnings manipulation through discretionary accruals weakens firm performance in both internal (ROA, ROE) and external (Tobin's Q) aspects. The association continues to be robust in various specifications and subsamples with statistical as well as economic significance. Policy-wise, the findings highlight an imperative need for enforcement of disclosure standards, audit autonomy, and corporate governance codes to be strengthened in Vietnam. The Vietnamese capital market, which is still developing to a more advanced institutional environment, remains vulnerable to information asymmetry risks. Improved accrual monitoring and greater transparency can dampen manipulation and help ensure long-term market integrity.

Further, such results are especially relevant considering Vietnam's recent experience with accounting reform and IFRS implementation, which suggests that such conversions would act to reduce incentives for manipulation if properly executed. Investors should also remain vigilant when considering high earnings reported, especially from small, fast-growing firms without corresponding cash flow improvements. The study thus provides timely evidence for regulators and market participants alike, confirming the relevance of earnings quality as a core determinant of sustainable firm performance and valuation in emerging economies.

## 5. Conclusion

This study aimed to investigate the relationship between earnings management based on accruals and the performance of HOSE-listed non-financial firms between the years 2018 and 2022. Using the Modified Jones Model to estimate discretionary accruals as the earnings management measure, and utilizing panel data regression models, the study provides strong evidence to prove that earnings management has a strongly negative impact on firm performance.

In all sensitivity analyses and models, subsamples of firm size, other estimation techniques Kothari et al. [3] and lagged variables, the findings consistently show that firms with greater levels of earnings manipulation fare worse in both accounting-based performance measures (ROA and ROE) and market-based valuation (Tobin's Q). The effect is particularly pronounced among small firms, possibly due to less robust governance mechanisms and fewer external monitoring tools. These results supplement the overall theoretical hypothesis that earnings management hurts financial transparency and misleads investors, eventually eroding firm value.

Theoretically, the paper confirms the relevance of agency theory and information asymmetry paradigms to the explanation of managerial behavior in the context of emerging markets. The paper contributes to the empirical literature on earnings quality by documenting new evidence from Vietnam, a rapidly evolving but comparatively still young financial system economy.

In practice, the study has several implications. To regulators and policy makers, the findings underscore the need for strengthening enforcement powers, audit independence, and financial literacy to close opportunities for earnings manipulation. To investors and analysts, the study suggests the need for careful scrutiny of accounting reported financial statements, particularly discretionary accruals, as red flags of performance sustainability. To firms, evidence suggests that conservative and transparent financial reporting can enhance investor confidence and long-term value.

Nevertheless, this study has two limitations. First, it considers only accrual-based earnings management without observation of real activities manipulation, which also affects performance. Second, the analysis focuses only on listed non-financial firms in HOSE, which could limit the generalizability of findings to other industries or stock exchanges. Finally, while panel regression helps reduce unobserved heterogeneity, causal inference might still be enhanced by using instrumental variables or natural experiments.

Subsequent studies can address the above limitations by using real earnings management practices, expanding the sample to include UPCoM- and HNX-listed companies, or exploring the moderating roles of audit quality, board structure, and ownership concentration. Studies on the impact of recent regulatory reforms in Vietnam on earnings management practices would also be valuable.

Conclusively, the study reaffirms that earnings management remains a threat to corporate performance and transparency in emerging markets. Enhanced governance, disclosure standards, and market discipline are vital for establishing a credible financial reporting system and achieving sustainable capital market growth in Vietnam.

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