

The Impact of Corporate Governance on Financial Crises in Taiwan's High-Tech Industry: Insights into Earnings Management and Transparency

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Abstract

Since the Asian financial crisis and the corporate scandals concerning Enron and WorldCom, financial crises and corporate issues have repeatedly highlighted. This has turned global attention to corporate governance mechanisms once more, making it a topic of ongoing concern worldwide. This study selected publicly listed high-tech companies that participated in corporate governance evaluations as the research sample. The findings indicate that corporate governance has a significant negative impact on financial crises. Furthermore, corporate governance increases the level of information disclosure within the company. Additionally, corporate governance exhibits a significant negative correlation with earnings management. The study also revealed that financial crises have a significant positive impact on earnings management. In contrast, the level of information disclosure negatively impacts both earnings management and financial crises. In summary, this study highlights the pivotal role of corporate governance in improving transparency, reducing financial crises, and curbing earnings management.

Keywords: Corporate Governance, Financial Crises, Information Disclosure, Earnings Management, Stakeholder Theory

Introduction

With the increasing rate of globalization and economic liberalization, governments worldwide are facing more intense economic competition. To promote national economic growth and maintain the stability of financial systems, many countries have implemented a series of economic reforms. These reforms mainly aimed at improving market efficiency, optimizing capital allocation, and preventing the disruptive impacts of financial institution failures on the economy. In this context, a company's operational performance and financial status have become critical metrics for assessing its value and future growth potential. Financial statements serve as the most essential tools for information disclosure. These tools provide investors with key data about a company's operations and financial health. However, the frequent occurrence of financial crises has exposed the vulnerabilities and lack of

transparency in financial statements. Under conditions of intense corporate competition and an unstable economic environment, financial fraud and earnings manipulation have become increasingly common. These factors caused significant negative impacts on society and economic systems. High-profile cases such as the Enron and WorldCom scandals revealed the severe economic losses and trust crises that financial fraud can trigger. In Taiwan, financial scandals involving companies like Procomp Informatics and Taiwan Electrical and Mechanical Engineering Co. (Taiwan Tekko) have not only attracted widespread public attention but also exposed significant shortcomings when it comes to corporate governance. These cases highlight that a lack of effective corporate governance mechanisms can erode investor confidence and even trigger systemic market risks.

When earnings management goes unchecked, it can escalate into crises at a corporate level and further destabilize capital markets. Effective corporate governance mechanisms aim to reduce agency costs, improve internal oversight, and establish checks and balances within companies. As a result, they aim to promote transparency within the company and protect the interests of all stakeholders. Healthy governance can prevent managerial misconduct, enhance the reliability of financial statements, and reduce the possibility of financial crises. In modern capital markets, the issue of mismatched information between investors and management exacerbates risks, as investors may struggle to identify earnings manipulation on time. For example, some managers, driven by short-term incentives, may inflate earnings or conceal liabilities to siphon off corporate assets. This leads to the failure of the business or even large-scale market disruptions. Although numerous studies have explored individual governance mechanisms. These mechanisms include board independence, audit committee functionality, or institutional investor participation. The previous studies focused solely on isolated aspects which may lead to overlooking the interactions and the overall effect of different governance mechanisms. In other words, strong performance in a single governance dimension does not necessarily mean overall governance is effective. Furthermore, potential counteractive effects between

governance mechanisms could lead to biased conclusions. Adopting a more comprehensive perspective to evaluate the effectiveness of corporate governance can provide a more accurate understanding of earnings management behaviors, helping investors and stakeholders make more informed decisions.

A review of historical financial crises highlights not only the risks posed by inadequate internal oversight but also the need to rethink corporate management policies, information disclosure mechanisms, risk management measures, and governance structures. Effective corporate governance must be based on the four core principles of fairness, transparency, accountability, and responsibility to fully achieve its intended functions. For example, in the financial industry, the separation of ownership and management can be regulated through legal frameworks and internal controls. This promotes standardized operations and prevents mismanagement by executives. This study aims to construct a model that warns about financial crises beforehand. It incorporates corporate governance, earnings management, and information disclosure levels to comprehensively analyze the risk factors associated with financial crises. By empirically evaluating current corporate governance mechanisms, the current study seeks to unravel their effectiveness as well as shortcomings. The study offers specific policy recommendations to improve governance systems, enhance corporate competitiveness, and promote the stable development of economic environments.

Literature Review

Corporate Governance

Bich and Uyen (2020) defines corporate governance as a set of relationships between a company's management, board of directors, shareholders, and other stakeholders. This definition underlines the critical role of corporate governance when it comes to ensuring the reasonable allocation of rights and responsibilities among different corporate entities. Kyere and Ausloos (2021) describes corporate governance as the mechanisms, relationships, and processes by which corporations are controlled and directed. Nekhili et al. (2021) views corporate governance as a mechanism for guiding and controlling corporations. It

encompasses a governance structure that clearly defines the distribution of rights and responsibilities among various organizational components. Arjoon (2021) stresses that corporate governance is not solely about legal and economic considerations but also involves ethical dimensions. He argues that corporate governance should make sure that companies pursue profit while also adhering to ethical standards and being socially responsible. Mahdi (2020) conclude that effective governance enhances corporate value and reduces risk. Handayani et al. (2020) highlighted the critical role of board diversity in improving corporate governance effectiveness. The diversity concept in their study covered areas such as gender, professional background, and cultural diversity. Diversity contributes to more comprehensive decision-making and enhances responsiveness to stakeholder needs. Ahmed (2019) proposed an integrated framework that incorporates ESG objectives into governance practices to ensure corporate sustainability. Olojede et al. (2021) findings reveal that active shareholder intervention can drive reforms of governance structures, particularly in areas such as board member selection, compensation structures, and strategic adjustments.

Application of Relevant Theories

Agency Theory

Proposed by Jensen and Meckling (1976), agency theory explains the conflict of interest between principals (shareholders) and agents (management) within a company. When agents control the decision-making process, they may act in their interests, such as engaging in earnings management, rather than maximizing shareholder value. Application in this study: This study shows that weak corporate governance structures (e.g., low board independence or the absence of an audit committee) increases the likelihood of earnings management, reduces the transparency of information disclosure, and increases the risk of financial crises. Robust corporate governance mechanisms help mitigate such agency problems by enhancing transparency.

Signaling Theory

Spence (1973) introduced signaling theory. This theory emphasizes that in markets with information asymmetry,

companies can signal positive qualities to gain investor trust by disclosing critical information (e.g., financial statements, and corporate governance practices). High-quality information disclosure reduces market uncertainty. Application in this study: Earnings management weakens the credibility of the signals sent by a company, eroding market trust. Contrary to this, transparent information disclosure reduces financial crisis risk by reinforcing market expectations of a company's financial stability.

Stakeholder Theory

Proposed by Jia et al. (2020), stakeholder theory asserts that companies should consider the needs of all stakeholders (e.g., investors, employees, government, and society), not just shareholders. Information disclosure serves as a crucial tool for communication between companies and their stakeholders. Application in this study: Information disclosure impacts not only the company-investor relationship but also the trust of other stakeholders, such as regulators, employees, and customers. Earnings management damages a company's long-term reputation, while transparent disclosures satisfy stakeholder demands and reduce the likelihood of financial crises.

Resource-Based View (RBV)

Barney (1991) proposed the resource-based view, which suggests that a company's competitive advantage stems from rare and inimitable resources, such as human capital, organizational structures, and information systems. Information disclosure can serve as a valuable resource for enhancing corporate transparency and trust. Application in this study: The quality of information disclosure is a critical resource for establishing a competitive advantage in the market. High-quality information disclosure results in increased transparency, attracts more investors, and reduces the risk of financial crises.

Information Asymmetry Theory

Proposed by Akerlof (2002), information asymmetry theory suggests that asymmetrical information among market participants leads to adverse selection and moral hazard. Earnings management and low-quality information disclosure worsen the problem of information asymmetry. Application in this study: Earnings management intensifies information asymmetry, whereas improved information

disclosure effectively mitigates the adverse effects of asymmetry on investment decisions, and reduces the likelihood of financial crises.

Earnings Management

Hanum et al. (2024) findings revealed that Taiwanese firms with a high export ratio or significant overseas subsidiaries significantly increased real earnings management during the global pandemic. Tai's (2020) study found that lower financial statement quality is associated with higher dividend payout ratios, with this relationship being stronger under higher levels of information asymmetry. Yen et al.'s (2022) study showed a positive correlation between KAM related to accounts receivable and inventory and the degree of real earnings management during the same period. This indicates that such KAM can be seen as a warning signal for real earnings management. The study revealed significant differences in the degree and methods of earnings management between the two countries, influenced by their respective accounting standards and market environments. Darsono et al. (2022) categorized earnings management into accrual-based earnings management. It involves adjusting accounting estimates and policies, and real earnings management, which consists in altering actual business activities. The results indicated that strong corporate governance effectively mitigated earnings management behaviors during the pandemic. Chen and Lin (2023) defined earnings management as manipulating financial statement data to achieve specific financial goals. Firms with higher levels of earnings management tended to adopt more conservative dividend policies to avoid excessive scrutiny of their financial conditions. Their study found that high audit quality significantly reduces the incidence of earnings management, particularly in controlling accrual-based earnings management. Zhang et al. (2022) defined earnings management as managerial actions aimed at improving short-term corporate performance or achieving personal incentive goals by leveraging accounting standards or modifying real transactions. The study revealed that higher levels of managerial ownership reduce the likelihood of earnings management, as management's interests are more closely aligned with the company's long-term performance.

Level of Information Disclosure

Chen and Wang (2021) define the level of information disclosure as the completeness and transparency of financial and non-financial information provided by a company to external stakeholders. They pointed out that a high level of information disclosure helps to reduce information asymmetries, improve corporate governance, and enhance the value of the company. Hanum et al. (2024) used the level of information disclosure as a measure of corporate transparency. Their results demonstrate that higher levels of information disclosure effectively suppress earnings management behaviors and enhance the credibility of financial statements. Clinch G. and Verrecchia R. (2015) define the level of disclosure as the amount of information voluntarily provided by companies beyond statutory requirements. They found that higher levels of voluntary disclosure reduce a company's cost of capital, as investors demand lower risk premiums from more transparent firms. Chauhan & Kumar (2018) define it as the breadth and depth of information provided in financial reporting. Their study identified company size, board structure, and external audit quality as the primary factors affecting disclosure levels. Feng et al. (2023) define the level of disclosure as the breadth and depth of publicly available company information. They found that higher levels of information disclosure are associated with lower stock price synchronicity, indicating that markets are more responsive to firm-specific information for highly transparent companies. Sharif & Lai (2015) define the level of information disclosure as the transparency and completeness of the financial and non-financial information provided by companies. Their findings indicate a positive correlation between the level of disclosure and investor protection. Lee (2020) defined the level of disclosure as the extent to which companies voluntarily disclose detailed financial conditions and operational results. Companies with higher levels of information disclosure face fewer financial constraints. Oware and Mallikarjunappa (2023) define the level of disclosure as the level of detail provided in CSR reports. Their research concluded that mandatory disclosure increases the amount of disclosed information, which in turn enhances corporate performance. Zhang et al. (2023)

define the level of disclosure as the extent to which companies disclose detailed information about R&D activities and innovation outcomes. Their findings reveal that higher levels of information disclosure improve corporate innovation activities.

Corporate Financial Crisis

Agostini (2018) defines a corporate financial crisis as a persistent negative state during which a company experiences adverse financial conditions such as low liquidity, inability to repay debts, restrictions on dividend distribution policies, increased capital costs, reduced access to external funding, and declining credit ratings. Sehgal et al. (2021) describe a financial crisis as a state in which a company fails to meet its financial obligations, potentially leading to bankruptcy or restructuring. They emphasize that identifying the key reasons for a financial crisis is crucial for predicting and preventing corporate failure. Elloumi and Gueyié (2001) define a financial crisis as a situation where a company cannot meet its financial commitments. They found that board composition significantly impacts financial distress. Lee & Yeh (2004) describes a financial crisis as a condition where a company or individual cannot generate sufficient income or revenue to meet financial obligations. Indicators of a financial crisis include negative cash flow, debt defaults, and difficulties in raising funds. Wehrheim et al. (2021) defines a financial crisis as any situation where an individual or company is unable to pay bills, especially loan payments to creditors. Common causes of financial crises include declining income, rising costs, and excessive debt burdens. Mehmood et al. (2025) states that a financial crisis arises when an entity cannot meet its financial obligations. Pindado and Rodrigues (2005) defines a financial crisis as a situation in which a company struggles to meet its financial obligations to creditors, often due to the inability to generate sufficient revenue to cover operating expenses.

The Impact of Corporate Governance on Corporate Financial Crisis

Hanum et al.(2024) found that companies with lower board independence and higher ownership concentration are more likely to encounter financial distress. Perera and Munasinghe (2024) demonstrated that board size and the

effectiveness of audit committees are positively correlated with financial stability (Suprabha et al., 2024). They indicated that strong corporate governance mechanisms help reduce the risk of financial crises. Tron et al. (2023) highlighted that transparent information disclosure and effective board oversight significantly reduce the possibility of financial distress. Noman et al. (2021) observed that companies with higher board diversity and independence exhibit greater financial stability and are less prone to financial crises. Puspaningsih et al. (2024) found that sound corporate governance structures mitigate the adverse impact of high leverage on financial stability, as well as reduces the risk of financial crises. The work of Ahmed (2019) revealed that more diverse board and higher management ownership ratios contribute to a lower likelihood of financial distress. This demonstrates the importance of diversity and alignment of interests in corporate governance. Nekhili, et al. (2021) noted that strong corporate governance mechanisms play a more significant role in preventing financial crises in developing economies, likely due to weaker legal and regulatory environments in these markets. Cho and Chung (2022) identified that moderate board size, members with financial expertise, and a high proportion of independent directors help reduce the risk of financial distress in companies. Shetty and Vincent (2021) found that family-owned companies are more susceptible to financial crises because the introduction of external investors and professional managers improves corporate governance and reduces financial risk. Based on these findings, this study proposes the following hypothesis:

H1: Corporate governance has a significant negative impact on corporate financial crises.

The Impact of Corporate Financial Crisis on Earnings Management

Alsaadi et al. (2023) found that ESG disclosure has a positive and significant impact on earnings management, with financial distress further amplifying this effect. This suggests that companies in financial distress are more likely to disclose ESG practices while simultaneously engaging in earnings management. Hanum et al.(2024) observed that companies facing financial distress are more inclined

to adopt real earnings management strategies to avoid drawing the attention of auditors and regulatory agencies. Sanusi et al. (2023) demonstrated that both financial distress and leverage have a significant positive impact on earnings management. However, strong corporate governance can mitigate the influence of financial distress on earnings management, though its effect on leverage is not significant. Shinta and Arum (2023) highlighted that both leverage and financial distress significantly promote earnings management behaviors. Nevertheless, strong corporate management can effectively lessen these impacts, underscoring its importance in curbing earnings management. Abdel-Meguid et al. (2020) found a U-shaped relationship between financial distress and earnings management. In the early stages of financial distress, companies tend to reduce their earnings management. However, as financial distress intensifies, companies are more likely to increase earnings management activities. Attia et al. (2024) showed that companies in financial distress are more likely to engage in earnings management. This situation is often characterized by low board independence and more conservative opinions from auditors. Hanum et al. (2024) demonstrated that financial distress has a significant impact on earnings management, while profitability does not. This finding indicates that companies are more likely to engage in earnings management when experiencing financial distress. Yopie and Erika (2021) found that financial distress significantly influences real earnings management, while family ownership does not have a significant moderating effect on this relationship. Based on these findings, this study proposes the following hypothesis:

H2: Corporate financial crisis has a significant positive impact on earnings management.

The Impact of Corporate Governance on Earnings Management

Kalantonis et al. (2021) study showed that companies with a higher proportion of independent directors exhibited lower levels of earnings management. This indicates that effective corporate governance can reduce managerial manipulation of earnings. Kyere & Ausloos (2021) found that board size and audit committee independence

negatively correlates with earnings management. Tseng et al. (2020) highlighted the significant role of board independence and audit quality in curbing earnings management in emerging markets. This finding suggests that diverse and specialized governance mechanisms effectively reduce earnings manipulation. Kumar and Singh (2021) observed that audit committee independence, expertise, and meeting frequency are negatively associated with earnings management. Their findings highlight the effectiveness of strong audit committees in the processes of overseeing financial reporting and reducing earnings manipulation. Huber and DiGabriele (2021) found that robust corporate governance mechanisms reduce earnings management behavior, thereby enhancing a company's value. Adeneye et al. (2024) reported that earnings management negatively impacts ESG performance, however corporate governance mechanisms such as board gender diversity effectively mitigate the adverse effects of earnings management on ESG performance. Chi et al. (2020) revealed that the effects of family ownership and board independence on earnings management vary depending on the level of earnings management. Their study provided insights for regulators on the effectiveness of governance mechanisms. Attia et al. (2024) found that boards with greater gender diversity are more effective in terms of limiting earnings management. Alam et al. (2020) demonstrated that board size, company size, and leverage significantly and negatively influence earnings management in both Islamic and conventional banks. Based on these findings, this study proposes the following hypothesis:

H3: Corporate governance has a significant negative impact on earnings management.

The Impact of Corporate Governance on the Level of Information Disclosure

Tran et al. (2020) found that information transparency and corporate governance variables have a considerable positive impact on firm value, highlighting the importance of strong corporate governance to improve information transparency and corporate performance. Chen et al. (2023) demonstrated that sound corporate governance and social responsibility disclosures mitigate the negative impact of trade wars on stock prices, emphasizing the critical role of

transparency in addressing external shocks.

In their study Chi et al. (2020) observed that standardized information disclosure policies and effective corporate governance reduce information asymmetry and enhance transparency. This, in turn, influences a firm's earnings management decisions. Accordingly, it can be inferred that robust corporate governance contributes to improved transparency. Huber and DiGabriele (2021) explored the relationship between corporate governance and information disclosure, emphasizing how an effective governance mechanism can promote transparency. However, they also highlighted potential issues associated with excessive disclosure, such as information overload and the risk of disclosing trade secrets. Villiers C., and Dimes R. (2021)) identified both external factors, such as national legislation and scandals, and also internal factors, such as financial performance, company size, and culture. They stated that these factors influence the level of corporate governance disclosure. Tiwari., Chatterjee (2024) found that higher disclosure thresholds can positively impact a firm's performance. This indicates that stricter disclosure standards improve corporate governance. Sharif and Lai (2015) reported that transparency disclosure indices are positively correlated with firm performance and negatively correlated with leverage, suggesting that good disclosure practices help to reduce financial risk. He et al. (2025) highlighted how amendments to corporate law have enhanced the status and professionalism of corporate secretaries which reduces instances of non-compliance with disclosure requirements. Based on these findings, this study proposes the following hypothesis:

H4: Corporate governance has a significant positive impact on the level of information disclosure.

The Impact of Information Disclosure on Earnings Management

Shinta and Arum (2023) found that mandatory CSR information disclosure significantly improves the quality of earnings management by enhancing external oversight from regulators and the media, and effectively curbing earnings management behaviors. This effect is more pronounced in firms with high analyst coverage, lower marketization levels, and non-state-owned enterprises.

Wang et al. (2022) showed that higher information disclosure quality reduces the likelihood of earnings management, thereby lowering the risk of stock value crashes. Kashyap et al. (2020) observed that firms consistently issuing positive earnings forecasts are more inclined to voluntarily disclose CSR information. Oware and Mallikarjunappa (2023) found a negative correlation between their transparency index and subsequent stock prices. They suggest that managerial evasion may lower information transparency and increase the risk of earnings management. Shinta , Arum (2023). reported a significant negative correlation between environmental information disclosure (EID) and earnings management (EM). They indicated that environmental information disclosure is likely driven by ethical behavior rather than opportunism. Purwanti and Kurniawan (2013). found that earnings management increases information asymmetry, while high-quality information disclosure reduces it. Wang and Deng (2006) observed that higher levels of internal control information disclosure are associated with lower levels of earnings management, indicating that robust internal control disclosures help curb earnings manipulation. Ho et al. (2022) found that higher levels of information disclosure reduce short-term managerial behavior, thereby decreasing the likelihood of earnings management. Zhang et al. (2023) demonstrated that ESG information disclosure effectively suppresses earnings management behaviors, with this effect being more profound when media attention is high. Based on these findings, this study proposes the following hypothesis:

H5: The level of information disclosure has a significant negative impact on earnings management.

The Impact of Information Disclosure on Corporate Financial Crisis

Suprabha et al. (2021) found that ESG information disclosure effectively reduces the risk of corporate financial distress. They stated that its effect varies across different stages of a company's life cycle. Samarakoon et al. (2024) emphasized that clear information disclosure helps mitigate corporate financial risks, with corporate governance playing a critical role in this process. Tiwari and Chatterjee (2024) demonstrated that the clarity of information disclosure significantly influences a

company's financial health, with ownership structure acting as a moderating factor. Li and Zhang (2020) showed that higher levels of information disclosure reduce the likelihood of corporate financial distress, underscoring the importance of transparency for companies' sustainability. Wang and Deng (2006) concluded that proactive information disclosure strategies decrease the frequency of financial distress, recommending that companies improve information transparency to enhance financial stability. Noman et al. (2021) revealed that under the influence of inventory, transparency, and disclosure (T&D) have a significant negative impact on financial distress. This indicates that improving transparency and the level of information disclosure helps mitigate the risk of financial distress. Kanoujiya et al. (2023) observed that higher levels of T&D can reduce financial stability, thereby increasing the risk of financial distress. Additionally, they identified an inverted U-shaped relationship between T&D and financial distress, suggesting that beyond a certain threshold, excessive disclosure may heighten the risk of financial distress.

Tron (2021) demonstrated that higher levels of T&D and strong ESG performance improve bank valuations and reduce the risk of financial distress. They highlighted the importance of transparency and sustainability practices in the banking sector. Salsabil and Wijayanti (2024) found that information asymmetry and liquidity positively influence earnings management, while profitability and leverage have negative effects. Independent boards and audit committees play varying roles in moderating these relationships. Indrati and Aulia (2022) noted that larger and more profitable companies tend to engage in higher

levels of voluntary disclosure, while companies in financial distress are associated with lower levels of voluntary disclosure. Based on these findings, this study proposes the following hypothesis:

H6: The level of information disclosure has a significant negative impact on corporate financial crises.

Methodology

Measurement Indicators for Research Variables

Corporate Governance

This study utilizes the 2023 Corporate Governance Evaluation published by the Financial Supervisory Commission (FSC) to measure corporate governance. The evaluation incorporates the indicators shown in Table 1, combined with the weights for each dimension provided in the FSC's Corporate Governance Operational Manual, to assess the quality of internal governance within a company.

Corporate governance is defined as a mechanism that integrates guidance, supervision, and management to ensure that corporate executives fulfill their responsibilities, protect shareholders' legal rights, and balance the interests of other stakeholders. According to the FSC's Corporate Governance Blueprint, good corporate governance should provide proper incentives to the board of directors and management to achieve operational goals. This process should be aligned with the best interests of the company and all shareholders. It facilitates organizational transformation, establishes effective oversight mechanisms, encourages efficient resource utilization, enhances competitiveness, and promotes societal welfare. The FSC also outlined six key principles of corporate governance.

Table 1. Corporate Governance Evaluation Indicators

Evaluation Indicator	Definition
Protection of Shareholder Rights	Assesses whether the company adheres to its articles of association for director and supervisor elections, as well as the appropriateness of director/supervisor compensation and dividend distribution practices.
Equitable Treatment of Shareholders	Examines whether the company convenes shareholder meetings in compliance with regulations, adopts voluntary electronic voting, and discloses financial reports accurately.
Enhancing Board Structure and Operations	Measures board attendance, board independence, information transparency, and whether the company establishes independent directors and an audit committee as required by law.
Implementing Corporate Social Responsibility (CSR)	Investigates whether the company has specific goals and practices for environmental sustainability and energy conservation, discloses social engagement efforts in its annual report and on its website, and voluntarily prepares CSR reports.

2. Earnings Management

This study measures earnings management primarily by utilizing discretionary accruals as the variable for accrual-based earnings management, following prior research methodologies. The Modified Jones Model is employed to estimate the following equations:

$$TAC_{it} = \alpha_0 + \alpha_1 \frac{1}{Assets_{it-1}} + \alpha_2 \frac{\Delta REV_{it}}{Assets_{it-1}} + \alpha_3 \frac{PPE_{it}}{Assets_{it-1}} + \pi_{it}$$

$$NDAC_{it} = \alpha_0 + \alpha_1 \frac{1}{Assets_{it-1}} + \alpha_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{Assets_{it-1}} + \alpha_3 \frac{PPE_{it}}{Assets_{it-1}} + \pi_{it}$$

$$DA_{it} = TAC_{it} - NDAC_{it}$$

Where:

- a. TAC_{it} : Total accruals for company i in period t .
- b. $Assets_{it-1}$: Total assets of company i at the beginning of period t .
- c. ΔREV_{it} : Change in sales revenue for company i during period t .
- d. ΔREC_{it} : Change in accounts receivable for company i during period t .
- e. PPE_{it} : The gross amount of depreciable fixed assets for the company i during period t .
- f. $NDAC_{it}$: Non-discretionary accruals.
- g. DA_{it} : Discretionary accruals.

These variables collectively allow for the estimation of discretionary accruals, which serve as a measure of accrual-based earnings management.

Level of Information Disclosure

The level of information disclosure in this study is measured using the "Information Disclosure Evaluation System". This system was developed by the Securities and Futures Institute (SFI) under the commission of the Taiwan Stock Exchange (TWSE) and the Taipei Exchange (TPEX).

Financial Crisis

The financial crisis variable (FAIL) in this study is treated as a binary variable, consistent with prior research. Companies are classified as experiencing a financial crisis and assigned a value of "1" if they meet any of the following criteria:

- a. Check or payment defaults
- b. Bankruptcy or insolvency
- c. CPA-issued adverse or qualified opinions
- d. Corporate reorganization
- e. Bailout or financial assistance requests
- f. Delisting from the stock exchange
- g. Net asset value per share below NT\$5
- h. Negative net worth

Companies that do not meet any of the criteria above are classified as firms with non-financial crisis and assigned a value of "0".

Data Sources

The sample data for this study were derived from publicly listed and over-the-counter (OTC) companies. The data focus on high-tech firms that participated in corporate governance evaluations. These companies were selected to examine the interrelationships among corporate governance, financial crises, the level of information disclosure, and earnings management. Corporate governance data were obtained from the Corporate Governance Center, while financial statement data for listed and OTC companies were sourced from the Taiwan Economic Journal (TEJ). After collecting financial data for the year 2023 and removing observations with missing values, the final sample consisted of 371 companies.

Data Analysis Methods

After collecting the questionnaire responses, the data were analyzed using SPSS as the primary analytical tool. The following analytical methods were applied:

Correlation Analysis

This method was used to examine the degree and direction of the relationship between two random variables. The correlation coefficient (r) ranges between -1 and 1. When approaches 0, it indicates a weaker relationship between the variables. A positive r closer to 1 indicates a strong positive correlation, while a negative r closer to -1 indicates a strong negative correlation.

Regression Analysis

Regression analysis was employed to explore whether a

specific relationship exists between the data. This technique establishes a model that describes the relationship between the dependent variable Y and independent variables X. The purpose of regression analysis is to determine whether variables are related. It is also used to determine the direction and strength of their relationship and to develop a mathematical model.

Regression analysis calculates a linear combination of "predictor variables" to predict the "criterion variable." The primary functions of regression are explanation and prediction. The basic principle is illustrated as follows:

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \dots + \beta_i X_i + \varepsilon$$

The main process involves determining the appropriate weights (e.g., $\beta_1, \beta_2, \beta_3, \dots$) for the predictor variables

(e.g., $X_1, X_2, X_3, \dots, X_i$) to form a linear combination that predicts the criterion variable Y. The goal is to minimize the sum of squared errors between the predicted values and the actual values.

Analysis and Discussion

Correlation Analysis

As shown in Table 2, corporate governance, earnings management, the level of information disclosure, and financial crisis are significantly correlated. These results indicate the possibility of linear overlap among the research variables. Furthermore, the significant correlations among the variables align with the proposed hypotheses, providing support for the research framework.

Table 2: Pearson Correlation Analysis

Variables	Corporate Governance	Financial Crisis	Level of Information Disclosure	Earnings Management
Corporate Governance				
Financial Crisis	-0.25**			
Level of Information Disclosure	0.27**	-0.31**		
Earnings Management	-0.35**	0.30**	-0.24**	

Note: $p^{**} < 0.01$ indicates statistical significance.

These findings suggest meaningful linear relationships among the variables and provide evidence consistent with the proposed hypotheses.

Regression Analysis of the Impact of Corporate Governance on Financial Crisis and Information Disclosure

This study employs regression analysis to test the hypotheses and theoretical framework. The first regression model examines the impact of corporate governance on corporate financial crisis. The results show that corporate governance has a negative effect on the financial crisis

($\beta = -0.247, p = 0.000$) (see Table 3). Therefore, Hypothesis 1, which states that corporate governance has a significant negative impact on corporate financial crisis, is supported.

The second regression model tests the effect of corporate governance on the level of information disclosure. The analysis reveals that corporate governance has a positive influence on information disclosure ($\beta = 0.271, p = 0.000$) (see Table 3). Thus, Hypothesis 4, which states that corporate governance has a significant positive impact on the level of information disclosure, is supported.

Table 3: Regression Analysis of the Impact of Corporate Governance on Financial Crisis and Information Disclosure

Dependent Variable	Financial Crisis		Level of Information Disclosure	
Independent Variable	β	P	β	P
Corporate Governance	-0.247**	0.000	0.271**	0.000
F-Value	28.593		31.266	
R ²	0.247		0.283	
Adjusted R ²	0.233		0.269	
**p < 0.01				

Source: Compiled by this study.

These findings indicate that corporate governance significantly reduces the likelihood of financial crisis. It also positively influences the level of information disclosure, thus aligns with the proposed hypotheses.

(3) Regression Analysis of the Impact of Corporate Governance, Financial Crisis, and Information Disclosure on Earnings Management

This study employs regression analysis to test the hypotheses and theoretical framework. The first regression model examines the impact corporate governance has on earnings management. The results indicate that corporate governance has a significant negative effect on earnings management ($\beta=-0.346, p=0.000$) (see Table 4). Therefore, Hypothesis 3, which posits that corporate governance has a

significant negative impact on earnings management, is supported. The second regression model tests the effect of a financial crisis on earnings management. The analysis shows that financial crisis has a significant positive impact on earnings management ($\beta=0.298, p=0.000$) (see Table 4). Thus, Hypothesis 2, which states that financial crisis has a significant positive impact on earnings management, is supported. The third regression model examines the impact of information disclosure on earnings management. The results reveal that the level of information disclosure has a significant negative effect on earnings management ($\beta=-0.243, p=0.000$) (see Table 4). Therefore, Hypothesis 5, which posits that information disclosure has a significant negative impact on earnings management, is supported.

Table 4: Regression Analysis of the Impact of Corporate Governance, Financial Crisis, and Information Disclosure on Earnings Management

Dependent Variable	Earnings Management					
Independent Variable	β	P	β	P	β	P
Corporate Governance	-0.346**	0.000				
Financial Crisis			0.298**	0.000		
Level of Information Disclosure					-0.243**	0.000
F-Value	43.583		38.217		35.142	
R ²	0.396		0.342		0.337	
Adjusted R ²	0.375		0.325		0.314	
**p < 0.01						

Source: Compiled by this study.

These findings confirm that corporate governance and information disclosure significantly reduce earnings management, while financial crisis significantly increases earnings management. The results align with the proposed hypotheses and contribute to the theoretical framework.

(4) Regression Analysis of Corporate Governance and Corporate Financial Performance

This study uses regression analysis to test the hypotheses

and theoretical framework. The first regression model examines the impact of information disclosure on corporate financial crisis. The results indicate that the level of information disclosure has a significant negative effect on corporate financial crisis ($\beta=-0.316, p=0.000$) (see Table 5). Therefore, Hypothesis 6, which posits that information disclosure has a significant negative impact on corporate financial crisis, is supported.

Table 5: Regression Analysis of the Impact of Level of Information Disclosure on Financial Crisis

Dependent Variable	Financial Crisis	
Independent Variable	β	P
Level of Information Disclosure	-0.316**	0.000
F-Value	40.932	
R ²	0.347	
Adjusted R ²	0.325	
**p < 0.01		

Source: Compiled by this study.

The findings demonstrate that higher levels of information disclosure can significantly reduce the likelihood of corporate financial crises, supporting the hypothesis and aligning with the theoretical framework of this study.

Discussion

This study employs multiple regression analyses to investigate the effects of corporate governance on financial crisis, information disclosure, and earnings management, as well as their subsequent impact on corporate financial performance. Below is a detailed discussion of the key findings:

The Impact of Corporate Governance on Financial Crisis

The results of regression analysis indicate that corporate governance has a significant negative impact on the financial crisis ($\beta = -0.247$, $p = 0.000$). This suggests that robust corporate governance effectively reduces the likelihood of financial crises. Sound governance mechanisms, such as board independence, effective internal controls, and transparent decision-making processes, play a critical role in constraining managerial behavior and mitigating risks. Additionally, internal control mechanisms can identify financial issues early. By doing so, the control mechanisms prevent minor problems from escalating into full-blown financial crises. The collaboration of these mechanisms is crucial when it comes to defending companies against financial risks.

The Impact of Corporate Governance on Information Disclosure

The results show that corporate governance has a significant positive impact on the level of information disclosure ($\beta = 0.271$, $p = 0.000$). The level of information

disclosure is a crucial indicator of corporate transparency and it directly influences the trust of the investors. A robust corporate governance system ensures that stakeholders are provided with accurate, comprehensive, and timely information, reducing information asymmetry. Factors such as transparent financial statements, regularly published operational reports, and results from internal control inspections all contribute to improving the level of information disclosure.

The Relationship between Corporate Governance and Earnings Management

This study reveals that corporate governance has a significant negative impact on earnings management ($\beta = -0.346$, $p = 0.000$). Earnings management refers to the manipulation of financial data by managers, often motivated by self-interest, to meet specific financial targets. While this behavior may stabilize earnings in the short term, it undermines the company's credibility and financial stability in the long term. Strong corporate governance mechanisms effectively curb such behaviors. Moreover, active shareholder participation is critical in restraining earnings management. When shareholders regularly review the company's operations and vote on major decisions, they impose additional accountability on management. This reduces the likelihood of manipulation. These findings highlight the critical role of transparency and accountability in corporate governance for improving the quality of financial reporting.

The Impact of Financial Crisis on Earnings Management

The results indicate that a financial crisis has a significant positive impact on earnings management ($\beta = 0.298$,

$p=0.000$). When companies face financial crises, managers may resort to earnings manipulation to conceal operational issues, stabilize market confidence, and delay the full onset of the crisis. However, this behavior is typically unsustainable. Over time, the issues embedded in financial statements are likely to surface, further eroding investor trust. It is also worth noting that earnings management in the context of financial crises can exacerbate governance failures. Under financial pressure, managers may disregard board oversight and prioritize short-term gains. This weakens the company's long-term competitiveness. Therefore, maintaining effective governance structures during financial crises is a critical challenge for companies.

The Impact of Information Disclosure on Earnings Management and Financial Crisis

The level of information disclosure has a significant negative impact on both earnings management and financial crisis. This underscores the role of transparent information disclosure as a critical tool in curbing unwanted behaviors. When companies provide accurate and comprehensive information to the market, they reduce the likelihood of earnings manipulation and financial crises. This finding highlights the central role of information disclosure in corporate governance. A transparent information environment also provides investors with more reliable data for the decision-making process, thereby mitigating risks associated with information asymmetry. Furthermore, enhanced information disclosure allows regulatory bodies to better assess corporate risks, contributing to overall market stability.

The Relationship between Corporate Governance and Financial Performance

Although this study primarily focuses on financial crises and earnings management, the results indirectly support the positive relationship between corporate governance and financial performance. A reliable and strong management structure not only reduces risks but also enhances resource allocation efficiency, creating greater value for shareholders. Overall, the findings of this study demonstrate that corporate governance plays a vital role in ensuring operational stability and transparency. A sound

governance structure effectively reduces the likelihood of financial crises and curbs earnings management by enhancing information transparency.

These findings provide empirical support for theoretical frameworks and have practical implications for corporate governance practices. Future research could explore the interactions between different governance mechanisms and examine how governance structures can remain resilient in dynamic economic environments. In addition, studies on different industries and markets could provide policymakers with specific recommendations based on the needs of that region, thus contributing to the improvement of global corporate governance systems.

Conclusion

This study, through multiple regression analyses, examined the relationships among corporate governance, financial crisis, information disclosure, and earnings management, leading to the following key conclusions:

The Impact of Corporate Governance on Financial Stability

The findings indicate that a well-structured corporate governance framework significantly reduces the risk of financial crises. At its core, corporate governance provides oversight and constraints on managerial behavior, particularly by introducing checks and balances during the decision-making process. Companies can mitigate the likelihood of financial crises by establishing independent and professional boards of directors. Additionally, a rationalized ownership structure is critical to improving effective governance. When shareholders participate in major corporate decisions, managerial behavior is subjected to more comprehensive and effective monitoring.

The Crucial Role of Information Disclosure in Corporate Governance

Transparent information disclosure is an essential part of strong and stable corporate governance. This study demonstrates that companies with higher levels of information disclosure exhibit stronger financial transparency and investor confidence. Public disclosure of financial and operational information not only reduces risks associated with information asymmetry but also attracts

more investors. Furthermore, transparent information disclosure facilitates regulatory oversight, contributing to the stability of market order.

The Role of Corporate Governance in Curbing Earnings Management

Effective corporate governance plays a critical role when it comes to limiting earnings management behaviors. This study shows that establishing independent boards of directors and robust internal auditing systems significantly reduces the likelihood of financial statement manipulation by management. This protects investor interests while enhancing the authenticity and credibility of financial reports. For companies facing financial pressure, strengthening governance mechanisms is especially critical to maintaining ethical and responsible financial practices.

The Profound Impact of Financial Crisis on Corporate Behavior

When companies face financial crises, managers tend to engage in short-sighted behaviors to conceal operational issues. However, this study reveals that such actions more often than not worsen the crisis over time. During periods of financial distress, companies must rely heavily on strong management structures to prevent inappropriate behavior from damaging long-term development. Specifically, boards of directors should enhance their oversight of management to ensure transparency and compliance in decision-making.

The Necessity of Systematic Governance

The findings suggest a close relationship among corporate governance, information disclosure, and earnings management, indicating the need for a systematic approach to governance design. Relying solely on a single governance measure is unlikely to achieve optimal results. Companies should integrate various governance practices into a comprehensive framework to generate synergies. For instance, transparent information disclosure can not only improve governance efficiency but also serve as an effective constraint on managerial behavior.

In summary, this study provides empirical evidence for the critical role of corporate governance in terms of reducing financial crises, enhancing information transparency, and

curbing earnings management. The results also highlight the importance of systematic governance measures for achieving long-term corporate stability and operational success.

Future research could explore governance models across different industries and regions to provide policymakers and businesses with more targeted recommendations. These insights would further refine global corporate governance practices and contribute to sustainable economic development.

Recommendations

Strengthening Board Governance Structures

Enhancing Board Independence: The board of directors, as the core of corporate governance, relies heavily on its structural design. Companies should include more independent directors with professional backgrounds to ensure that management decisions are subjected to objective oversight. Independent directors help reduce conflicts of interest and provide constructive guidance, particularly in critical areas such as financial decision-making and risk management.

Promoting Board Diversity: Incorporating members with diverse backgrounds (e.g., gender, professional expertise, international experience) into the board can enhance the comprehensiveness of the decision-making process and foster innovation. Diversity reduces the risk of groupthink and supports broader governance perspectives, helping companies address complex economic and market challenges effectively.

Establishing Transparent Information Disclosure Mechanisms

Developing Information Disclosure Standards: Companies should establish clear and actionable information disclosure policies that cover critical areas such as financial data, operational risks, and internal controls. This approach not only enhances investor trust but also improves market efficiency.

Adopting Digital Information Platforms: Leverage digital technology to create corporate information disclosure platforms, enabling real-time data sharing and visualization. This helps investors access dynamic

corporate information quickly, further enhancing transparency.

(3) Strengthening Internal Controls and Risk Management

Institutionalizing Internal Audits: Companies should establish independent internal audit departments to regularly review financial statements and internal processes. A robust internal audit mechanism can identify and address potential financial and operational risks at an early stage, reducing the likelihood of financial crises.

Implementing Risk Warning Systems: Develop risk warning systems by analyzing financial indicators (e.g., capital structure, cash flow) and non-financial metrics (e.g., management behavior). These systems open the way for companies to take timely countermeasures during the early stages of a crisis and seek ways to solve these problems before they get out of hand.

Balancing Shareholder Rights and Corporate Management

Promoting Shareholder Participation: Companies should establish effective communication channels and hold regular shareholder meetings to keep shareholders informed about financial performance and operational plans. Increased shareholder participation strengthens oversight of management and enhances governance structures.

Avoiding Excessive Shareholder Interference: While shareholder participation is crucial, excessive interference may lead to short-term decision-making. Companies should balance shareholder rights with management autonomy to ensure long-term stability and growth.

Accelerating the Positive Cycle Between Governance and Performance

Integrating Performance Evaluation with Governance Improvement: Companies should regularly evaluate the impact of governance structures on operational performance and adjust governance mechanisms based on the findings. This approach improves resource allocation efficiency and enhances core competitiveness.

Implementing Long-Term Incentive Plans: Design incentive plans for management that align with the

company's long-term goals, such as stock-based compensation or giving bonuses based on performance. This encourages management to focus on sustainable development.

Promoting Regulation and Policy Development

Enhancing Corporate Governance Regulations: Regulatory bodies should establish more specific and actionable corporate governance standards, covering areas such as information disclosure, board responsibilities, and risk controls. Clear governance guidelines promote a more fair and transparent market.

Establishing Governance Evaluation Mechanisms: Managers should regularly evaluate and rank companies' governance performance, publishing the results to foster healthy competition among firms and improve overall governance standards.

These practical recommendations provide systematic governance strategies and innovative directions for corporate management, investors, and regulators. They are designed to help companies achieve stable operations and long-term growth in a volatile market environment. Simultaneously, these suggestions serve as a reference for future governance practices and policy-making, further promoting market transparency and fairness.

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