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Pressure from Parent Entity Owners and Non-Controlling Interests Stimulates Management to Income Smoothing: Evidence from Asia

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ABSTRACT
This study examines effect of pressure from parent entity owners (PEO) and non-controlling interest (NCI) on income smoothing and the moderating role of independent commissioners. Observational data from 2,740 firm-years of publicly traded companies in 12 Asian countries during 2021–2025 are used. The results support agency theory and fraud triangle theory, indicating that pressure from PEOs and NCIs significantly drives income smoothing practices, while the effectiveness of independent commissioners can mitigate the influence of both pressures. This study offers an original contribution by disaggregating shareholder pressure by ownership type (PEOs and NCIs) and the moderating role of independent oversight.

Keywords:
Income smoothing, shareholder pressure, parent entity owners (PEO), non-controlling interests (NCI), independent commissioners.

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INTRODUCTION

The research topic of income smoothing is interesting and deserves further in-depth discussion because it undermines stakeholders' trust in management (Wu et al., 2025). Income smoothing may result from a series of accounting techniques that do not violate accounting standards or tax regulations, but substantially reduces the quality of accounting information, namely transparency, honesty, and usefulness (Kusuma & Athori, 2023). Income smoothing indicates that the principle of transparency is ineffective, indicating that management is hiding something from stakeholders (Kusumaningarti, Kusuma, & Athori, 2025). Income smoothing reduces the value relevance of the accounting information produced (Li & Richie, 2016). In the short term, the impact may not be noticeable, but in the longer term, its effects will be felt, including disappointment with actual performance and unrealized investment return expectations. Income smoothing can undermine the trust of external fund providers, causing investors to miss dividend payments, and creditors to experience disruptions in paying their cost of debt (Renzi et al., 2025).

Numerous research has examined the determinants of income smoothing, including its position as an independent variable. Factors that influence the occurrence of income smoothing include pressure from shareholders (Lin & Zheng, 2025), pressure from creditors (Subramaniam et al., 2026), weak implementation of governance (Rahman et al., 2023), company size (Elrazaz & Aljifri, 2026), ownership concentration (Skała, 2021), capital structure policy, dividend payments and characteristics of directors (Liu et al., 2025a), political connections (Hamdi, 2024), weak commitment regarding transparency and breadth of disclosure (Chen & Wu, 2026), effectiveness of the audit committee's role (Zhao et al., 2025a), audit reputation (Sun & Li, 2025), corporate culture (Zampella & Ferri, 2025), environmental and energy pressures (Choi et al., 2025) and even due to external factors in the form of macroeconomic conditions and regulations (Lim & Yong, 2017) as well as the exploitation of loopholes in the application of fair value-based assessments (Chiorean et al., 2026). Research to date has not only examined income smoothing as a dependent variable but also as an independent variable. Management's income smoothing practices impact dividend payments and company growth (Renzi et al., 2024), stock returns (Mijoo & Jinhee, 2025) and firm value (Akbari et al., 2019).

Previous research, examining the influence of shareholder pressure on income smoothing, has used aggregate shareholder measures, such as studies by Lin & Zheng (2025) and Alsaadi (2025). However, in corporate groups with multiple subsidiaries, shareholders are classified into two types: shareholders who own the parent entity and minority shareholders in subsidiaries, known as non-controlling interests (NCI). These two types of shareholders have different investment return expectations, which in turn influences their interests in achieving company profitability. Owners of the parent entity are interested in achieving profitability as an indicator of ensuring the sustainability of their power and full control rights into the future, while non-controlling interests are interested in achieving profitability as an indicator of fulfilling their short-term investment goals, namely increasing share prices and paying short-term dividends (Kusuma & Agustin, 2023). However, unfortunately, there is still not much research that provides empirical evidence on the influence of disaggregated shareholder pressure on the occurrence of income smoothing.

The originality of this study is to disaggregate shareholder pressure into the categories of parent entity owners and non-controlling interests on income smoothing and examine the moderating role of independent commissioners in the influence of parent entity owner shareholder pressure and non-controlling interest shareholder pressure on income smoothing. In addition to being in line with the conditions of shareholder classification in group entities, this disaggregation is also in line with the format of the presentation of the income statement as a medium of management accountability in managing funds and their achievements in performance. In the presentation structure of the consolidated income statement, the presentation of profit information does not only stop at net profit after tax, but net profit and total comprehensive income are disaggregated into these two types of shareholders, namely profit attributable to owners of the parent entity and profit attributable to NCI. Furthermore, disaggregation also occurs in the presentation of the statement of financial position, specifically the presentation of equity items, namely the presentation of net asset

items allocated according to the rights of these two types of shareholders, namely equity attributable to owners of the parent entity and equity attributable to NCI. The disaggregation of profit, reflecting performance, and equity, reflecting ownership rights over the company's net assets, demonstrates transparency of information and a fair and allocated distribution of rights according to the proportion of share ownership of each type of owner. This disaggregation also accommodates the differing interests of both parties. Disaggregating profit and equity facilitates the prediction of future investment returns on the company in accordance with their respective share ownership proportions. Therefore, when examining the influence of shareholder pressure on income smoothing, it is appropriate to distinguish between pressure from parent entity owners and pressure from NCIs.

This research was motivated by the limited academic literature on the disaggregation of pressure from parent entity owners and NCIs on income smoothing practices and the moderating role of independent commissioners in this influence. We hope our study can fill the gap in the literature on income smoothing determination based on the two dimensions of the fraud triangle theory: pressure and opportunity. We separate pressure from parent entity owners and NCIs on income smoothing and examine whether independent commissioner oversight is sufficient to minimize the opportunity for income smoothing. We also hope that the results of our study will be useful for the world of practice, especially for prospective equity securities investors and prospective creditors using information on the role of independent commissioners in presenting high-quality financial information, and especially for prospective equity securities investors in predicting profitability as a reference for investment decisions, also paying attention to their position in the share ownership structure as the owner of the parent entity or NCI.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

In large business entities, there is a separation between shareholders as owners of funds and management as managers. This separation gives rise to problems, later referred to as agency problems, such as the tendency to pursue one's own interests at the expense of the interests of others (Jensen & Meckling, 1976). As business entities grow, they invest significantly in other entities, resulting in the creation of numerous subsidiaries. This development leads to the classification of company owners into two types of owners: owners of the parent entity and owners with non-controlling interests (NCI). Owners of the parent entity are shareholders in the parent entity who also hold majority shareholders in the subsidiaries, while NCI are minority shareholders in the subsidiaries(Kusumaningarti, Kusuma, Ahamad, et al., 2025). Agency problems also arise, not only between agents and principals, but also between agents, principals, owners of the parent entity, and principals of NCI (Kusuma & Luayyi, 2024). Management, owners of the parent entity, and NCI have their own interests, influencing the company's survival. Owners of the parent entity and NCI expect high profitability to achieve their expected return on investment. However, for various reasons, management may not be able to achieve the profitability target. To maintain its reputation in the eyes of the parent entity's owners and the NCI, management is encouraged to engage in income smoothing to create the appearance of maintained and stable profitability between periods (Athori & Kusuma, 2023).

The triangle fraud theory (Cressey, 1953) states three factors that contribute to fraud: pressure, opportunity, and rationalization. In our research, we base our analysis on the dimensions of pressure and opportunity that lead management to engage in income smoothing. Pressure comes from shareholders, as company owners or fund providers who invest their funds in the company. They invest not without purpose, but with the expectation of optimal returns in the future. They entrust the management they have paid to work professionally to achieve the company's financial goals, namely profitability targets. Current period profitability serves as an indicator of future profitability and the company's ability to meet shareholder expectations. Profitability influences stock prices (Andriana et al., 2025), company value (Kusuma, 2021b), company growth (Kusuma et al., 2026), and dividend payments (Kusuma & Agustin, 2023). However, it cannot be denied that managing a company is not easy. Management must face various internal problems, uncertain legal and economic environments, business competition, consumer preferences, business risks, rising raw material prices, and other operational costs, all

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of which impact profitability (Athori et al., 2025). On the other hand, management must maintain its reputation and shareholder trust. Pressure to achieve optimal profitability from shareholders encourages management to engage in income smoothing if profitability falls short of expectations (Wahyudi et al., 2025).

The second dimension of the triangle fraud theory is opportunity. Shareholders and other stakeholders lack the time and opportunity to directly and intensively manage the company's operations. Access to company information is very limited, and the medium for communicating managerial performance in managing the company and holding accountable for fund management is the financial report (Kusuma, 2023b). Therefore, in the principles of good corporate governance, one of the key elements is the effective oversight function of the independent board of commissioners. Independent commissioners are external parties with no vested interests in the company who control management actions, maintain transparency, and protect the rights and interests of stakeholders. The existence of supervision from independent commissioners can narrow the opportunity for management to carry out income smoothing (Agustin et al., 2025).

Shareholders of a parent entity are interested in high profitability, ensuring the company's longevity and optimal future returns on their investment, both through regular dividend payments and continued control rights (Anam et al., 2025). Parent entity owners are shareholders in the parent entity and majority shareholders in various subsidiaries. Their interest in the company's financial health is significant due to the substantial amount of funds they invest in the company. They fully entrust management to manage the company effectively. They have full control over the company, such as dominance in general shareholder meetings, strategic policy interventions, including dividend and capital structure policies, and the appointment and dismissal of the board of directors and commissioners (Taran-Bozbay et al., 2025). They place high expectations on profitability targets as a measure of the success of management (Nguyen et al., 2025). However, in practice, company management faces uncertainty, risk, business competition, fluctuating sales, increasing operating expenses, and various other operational issues, resulting in less than optimal profitability as expected. Pressure to appear profitable in the eyes of the parent entity's shareholders stimulates management to engage in income smoothing.

H1: Pressure from the parent entity's shareholders stimulates management to engage in income smoothing.

Shareholders with non-controlling interests do not have control rights over the group entity. Their motivation for investing is to profit from rising stock prices in active markets, although some hold longer positions due to the motivation to receive a share of dividends. Non-controlling interests (NCI), despite their small shareholdings and lack of control and strategic policy-making power, still contribute to the company's funding sources, particularly through the issuance of equity securities, and are the most active investors in the capital market (Ratih et al., 2025). The basis for NCI decisions to purchase company shares is the company's profitability, as a proxy for investment returns, which influence share price increases. NCI are interested in share price increases because their primary motivation for investing is to achieve rapid capital gains (Kusuma & Hilda Agustin, 2024). Pressure to appear profitable in the eyes of NCI shareholders stimulates management to engage in income smoothing.

H2: Pressure from non-controlling shareholders encourages management to engage in income smoothing.

Agency problems arise from divergent interests between management and shareholders, and between shareholders who own the parent entity and the NCI. Management is interested in optimizing bonuses, while shareholders are interested in dividends(Agustin & Kusuma, 2024). Owners of the parent entity are interested in the long-term viability of the company to maintain their power and control rights over the long term, while NCI is interested in short-term benefits in the form of share price fluctuations. The power, strength, access to information, and preferences of one party have the potential to sacrifice the interests of the other, who are weaker, lack control rights, and lack extensive access to in-depth company information (Liu et al., 2025b). These preferences can facilitate any action to achieve goals, including income smoothing. However, when a company implements good governance principles, a transparent, fair, and accountable system and environment are created

within the company. One form of good governance is the effectiveness of the oversight function carried out by independent commissioners (Zeng & Wang, 2025). Independent commissioners are external parties, not shareholders, tasked with overseeing and safeguarding the interests of all stakeholders. The effectiveness of the independent commissioner's role will reduce the opportunity for management to engage in income smoothing.

H3: The effectiveness of the independent commissioner's role weakens the influence of pressure from shareholders, owners of the parent entity, on management's income smoothing actions.

Independent commissioners stand firm in maintaining their integrity and professionalism, carrying out their duties professionally to optimally safeguard the interests of all stakeholders, including the interests of minority shareholders, both in the parent entity and in all subsidiaries owned (Zhao et al., 2025b). NCI has been considered underdog in the share ownership structure of the group entity, its powerlessness in determining the strategic direction of the organization, small ownership rights, making it easier for management to ignore NCI's interests (Agustin & Kusuma, 2024). However, government regulations regarding the principles of good corporate governance, seek to safeguard the rights and interests of NCI, one of which is through the obligation of the entity to establish independent commissioners from outside the organization who are free from elements of majority shareholders and management representatives (Wahyudi et al., 2024). The existence of independent commissioners is expected to safeguard NCI's interests in the company, particularly regarding the fulfillment of rights, transparency and fairness. Independent commissioners represent NCI's representation in the internal supervision of the organization that safeguards its interests, including management arrogance that ignores NCI's rights, including manipulation of profit presentation through income smoothing actions (Kusuma, 2023a). The effectiveness of the role of independent commissioners will narrow the opportunity for management to carry out income smoothing actions. NCI does indeed expect optimal profitability, as it represents NCI's future investment returns. However, NCI expects actual profitability, not creative accounting results in the form of income smoothing, which are potentially irrelevant to NCI's investment return expectations.

H4: The effectiveness of the independent commissioner's role weakens the influence of pressure from non-controlling interest shareholders on management's income smoothing actions.

Based on the justification above, the conceptual framework for this study is as follows:

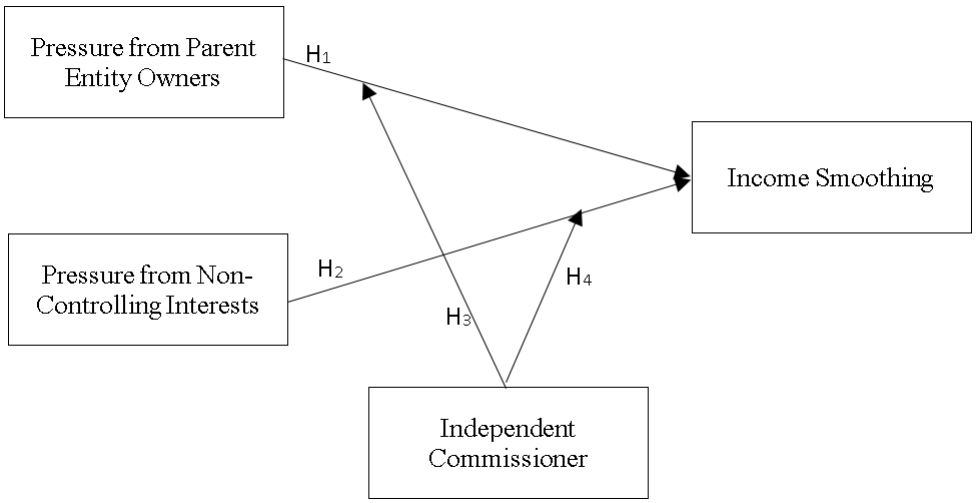

Figure 1. Conceptual Research Framework

RESEARCH METHODS

The data for this study are the financial statements of companies listed on the stock exchanges of 12 countries in the Asian region for the period 2021-2025, with a total population of 15,473 companies. The sample was selected using a purposive sampling method, with criteria

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including: 1) financial statements regularly available during the study period, 2) no negative net income or total comprehensive income, and 3) information available on attributable profit, independent board of commissioners, and non-controlling interests. After filtering through these criteria, 2,740 firm-year observational data were obtained. Data were obtained from Bloomberg. Information on the number of data in each country is presented in the following table.

Table 1. Research Data

No	Country	Total registered companies	Observation Data
1.	**Japan**	3.904	370
2.	**China**	2.847	343
3.	**India**	2.672	316
4.	**Malaysia**	1.014	305
5.	**Indonesia**	942	278
6.	**Thailand**	863	245
7.	**South Korea**	842	211
8.	**Singapore**	751	203
9.	**Turkey**	567	154
10.	**Pakistan**	537	142
11.	**Philiphines**	289	98
12.	**Vietnam**	245	75
	Total registered companies	15.473	
	Data firm-years		2.740

Income Smoothing (IS) serves as the dependent variable in this study. Income smoothing is the act of smoothing earnings with the aim of displaying relatively stable earnings between periods. Stable earnings between periods are more convincing and attractive to investors than fluctuating earnings. Income smoothing is measured using the Eckel Index (Eckel, 1981) with the following formula:

$$Income\ smoothings\ (IS_{i,t}) = \frac{Coefficient\ Variation\ \Delta Net\ Income}{Coefficient\ Variation\ \Delta Sales} \quad (1)$$

Pressure from Parent Entity Owners (PEO) serves as an independent variable in this study. PEOs pressure management to achieve optimal profitability targets. PEOs' interests in profitability are related to the company's survival, control rights, and future growth over a longer period. PEOs are the largest fund-providing investors in the shareholding structure and entrust management to management. Therefore, it is natural for them to put pressure on management regarding profitability achievements. Pressure from PEOs is measured by profitability based on profit and equity attributed to the PEO (Kusuma, Assih, et al., 2021). This measurement specifically involves only the PEO element, rather than aggregate profitability measurements that still mix PEOs with other entities.

$$Pressure\ from\ Parent\ Entity\ Owners\ (PEO_{i,t}) = \frac{Net\ Income\ Attributable\ to\ PEO}{Equity\ Attributable\ to\ PEO} \quad (2)$$

Pressure from Non-Controlling Interests (NCI) serves as an independent variable in this study. PEOs pressure management to achieve optimal profitability targets. NCI's interest in profitability is related to changes in stock prices and short-term dividend income. Pressure from NCI is measured by profitability based on profit and equity attributable to NCI (Arisyahidin et al., 2025); (Kusuma, Zuhroh, et al., 2021). This measurement specifically involves only NCI elements, rather than aggregate profitability measurements that still mix NCI with other interests.

$$Pressure\ from\ Non\ Controlling\ Interests\ (NCI_{i,t}) = \frac{Net\ Income\ Attributable\ to\ NCI}{Equity\ Attributable\ to\ NCI} \quad (3)$$

The Independent Commissioner (IC) serves as a moderating variable in this study. The IC is tasked with verifying whether financial reports have been prepared by management in accordance with applicable financial standards and ensuring they are presented honestly and with high quality. Based on research by (Zhao et al., 2025c), IC is measured as follows:

(4)

Referring to previous research that first examined the determinants of income smoothing (Alsaadi, 2025), we adopted these as control variables in our study. These include leverage (LEV), measured by the debt-to-equity ratio; company size (SIZE), measured by LN Total Assets (Kusuma, 2021a); external auditor reputation (AR), measured by a dummy variable of 1 if audited by one of the Big 4 accounting firms and 0 otherwise; the sample company's industry sector (Industry), a multiple dummy variable for nine industry types according to stock exchange classification; the influence of differences in country characteristics (COUNTRY), measured by a multiple dummy variable for the 12 countries studied; and the research period (YEAR), which serves as a control variable in this study.

In accordance with the research conceptual framework, we developed two research models to test the hypotheses: Model 1 without moderating influence and Model 2 with independent commissioner moderation. Hypotheses were tested using moderated regression analysis (MRA) with the following statistical equation:

$$Independent\ Commisioner\ (IC_{i,t}) = \frac{Independent\ Commissioner\ Members}{Total\ Number\ of\ Commissioner\ Boards} \quad (4)$$

Basic model:

$$IS_{i,t} = \alpha + \beta_1 PEO_{i,t} + \beta_2 NCI_{i,t} + \beta_3 LEV_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 AR_{i,t} + \sum_{i=1}^{n} \beta_n\ Country\_Dummies_{i,t} + \sum_{i=1}^{n} \beta_n\ Industry\_Dummies_{i,t} + \sum_{i=1}^{n} \beta_n\ Year\_Dummies_{i,t} + \varepsilon_{i,t} \quad (5)$$

Model with independent commissioner moderation:

$$IS_{i,t} = \alpha + \beta_1 PEO_{i,t} + \beta_2 NCI_{i,t} + \beta_3 IC_{i,t} + \beta_4 PEO * IC_{i,t} + \beta_5 NCI * IC_{i,t} + \beta_6 LEV_{i,t} + \beta_7 SIZE_{i,t} + \beta_8 AR_{i,t} + \sum_{i=1}^{n} \beta_n\ Country\_Dummies_{i,t} + \sum_{i=1}^{n} \beta_n\ Industry\_Dummies_{i,t} + \sum_{i=1}^{n} \beta_n\ Year\_Dummies_{i,t} + \varepsilon_{i,t} \quad (6)$$

Where,

$IS_{i,t}$ = Eckel index value for company i in period t,

$PEO_{i,t}$ = Ratio of profit attributable to owners of the parent entity to equity attributable to owners of the parent entity for company i in period t,

$NCI_{i,t}$ = Ratio of profit attributable to NCI to equity attributable to NCI for company i in period t,

$IC_{i,t}$ = Ratio of independent commissioners to the total number of board members for company i in period t,

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$PEO*IC_{i,t}$ = Interaction variable between PEO pressure proxy and the effectiveness of independent commissioner supervision for company i in period t,$NCI*IC_{i,t}$ = Interaction variable between NCI pressure proxy and the effectiveness of independent commissioner supervision for company i in period t,

$LEV_{i,t}$ = Debt-to-equity ratio for company i in period t,

$SIZE_{i,t}$ = Natural logarithm of total assets for company i in period t,

$AR_{i,t}$ = External auditor reputation, 1 = if audited by a BIG4 accountant, 0 = otherwise

Country = Dummy variable for the 12 countries where the sample companies are listed on stock exchanges.

Industry = Dummy variable for 9 classifications of industrial sectors of the sample companies.

Year = Dummy variable for the 4-year study period, 2021–2025.

α = Constant.

β = Regression coefficient of the independent variable.

ε = Error.

Robustness Test: Replacing the Proxy for Variable and Endogeneity Problem.

We conducted a robustness test to determine the consistency of the hypothesis testing results by replacing the proxy for PEO pressure and NCI pressure. Previously, we replaced the ROE ratio, or net profit divided by total equity attributable to PEO and NCI, with the ROA ratio, which is net profit attributable to PEO and NCI divided by total assets. We conducted a second robustness test to determine the consistency of the hypothesis testing results by replacing the proxy for income smoothing. Previously, we used the Eckel Index, but now we replace it with discretionary accruals as a measure of earnings management. The argument is that income smoothing and earnings management are forms of creative accounting (Kusuma & Rahayu, 2022). Earnings management is measured using the Modified Jones Model based from research of (Kusuma et al., 2022). We use the conventional Two-Stage Least Squares (2SLS) endogeneity procedure to ensure the findings are free from endogeneity bias caused by the correlation between the independent variables and the error term. The main independent variables in this study are PEO pressure and NCI pressure. We use changes in ROE (or ΔPEO) and ROE (or ΔNCI) as instrumental variables because they meet the correlation criteria with shareholder pressure as the main independent variable but not with income smoothing as the dependent variable.

RESULTS AND DISCUSSION

Table 2 below presents descriptive statistics. Based on the results of the descriptive statistical analysis, the average Eckel Index value was 0.902. This value is below 1, which conceptually indicates that companies tend to engage in income smoothing during the observation period. However, the relatively close average value to 1 indicates that the level of this practice is not extreme, but rather moderate. Furthermore, the minimum value of 0.278 indicates that some companies engage in relatively strong income smoothing practices, while the maximum value of 1.526 indicates that some companies do not engage in income smoothing. This relatively wide range of values reflects the heterogeneity of earnings reporting behavior among the sample companies. Meanwhile, the standard deviation of 0.624 indicates a moderate level of variation. This value indicates that although companies generally tend to engage in income smoothing, the practice is not uniform across all entities. In other words, differences in characteristics, accounting policies, and operational conditions contribute to variations in income smoothing tendencies across companies. Overall, these findings confirm that income smoothing practices occur in the research sample, but with varying levels of intensity and distribution.

Table 2. Output of Descriptive Statistics

Variable	n	Mean	Minimum	Maximum	St. Deviation
IS	2,740	0.902	0.278	1.526	0.624
PEO	2,740	0.673	0.506	0.812	0.263
NCI	2,740	0.344	0.197	0.452	0.348

Variable	n	Mean	Minimum	Maximum	St. Deviation
IC	2,740	0.359	0.208	0.438	0.295
LEV	2,740	0.674	0.598	0.845	0.401
SIZE	2,740	11.657	8.207	19.636	0.912
AR	2,740	0.488	0.401	0.517	0.234

Table 3 below presents the Pearson correlation matrix. The results of the Pearson correlation test indicate a significant relationship between ownership structure and corporate governance with the Eckel index in companies listed on the Asian stock exchanges. Specifically, the percentage of ownership of the parent entity is positively and strongly correlated with the Eckel index ($r = 0.814$, $p < 0.01$), indicating that the greater the proportion of shares owned by controlling owners, the higher the company's Eckel index. Furthermore, non-controlling ownership (NCI) also shows a strong positive correlation with the Eckel index ($r = 0.705$, $p < 0.01$), indicating that the involvement of minority investors contributes to the increase in the index value. Conversely, the proportion of independent commissioners shows a strong negative correlation with the Eckel index ($r = -0.748$, $p < 0.01$), indicating that an increase in the number of independent commissioners tends to be associated with a decrease in the Eckel index. These findings confirm that ownership structure has a positive impact on index performance, while independent governance mechanisms, in the context of this sample, exert a contrarian influence, possibly reflecting the trade-off between internal control and strategic decision-making flexibility in Asian companies.

Pearson correlation results also revealed a significant relationship between governance and financial structure variables and income smoothing practices. Specifically, auditor quality, using the Big 4 proxy, was negatively correlated with the Eckel index ($r = -0.405$, $p < 0.01$), indicating that the involvement of high-quality auditors tends to suppress income smoothing practices. Conversely, corporate leverage showed a moderate positive correlation with the Eckel index ($r = 0.619$, $p < 0.05$), indicating that companies with higher debt levels tend to engage in income smoothing to offset earnings volatility. Firm size also had a positive correlation, albeit weaker ($r = 0.282$, $p < 0.01$), implying that larger firms are more likely to adjust reported earnings. Furthermore, the proportion of independent commissioners is negatively correlated with leverage ($r = -0.541$, $p < 0.05$), supporting the view that independent oversight mechanisms serve to limit financial risk by controlling the use of debt. Overall, these findings confirm the central role of auditors and independent boards of commissioners in mitigating income smoothing practices, while financial structure and company size play a role in encouraging such practices.

Table 3. Pearson Correlation Matrix

Variable	IS	PEO	NCI	IC	LEV	SIZE	AR
IS	1						
PEO	0.814***	1					
NCI	0.705***	−0.403*	1				
IC	−0.748***	0.542*	0.648**	1			
LEV	0.619**	0.015	0.002	−0.541**	1		
SIZE	0.282*	0.603**	0.411**	0.426**	0.431**	1	
AR	−0.405*	0.341*	0.067	0.783***	0.001	0.236*	1

Note: The values above represent Pearson correlation coefficients. The closer the coefficient is to 1, the stronger the correlation between the variables, and vice versa. The positive or negative sign indicates the direction of the correlation, where a positive sign reflects a direct relationship, while a negative sign indicates an inverse relationship. ***, **, and * denote the significance levels of the Pearson correlation coefficients at 1%, 5%, and 10%, respectively.

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Table 4 below displays the results of hypothesis testing using Moderated Regression Analysis. The regression results indicate that pressure from shareholders who own the parent entity (PEO) significantly drives income smoothing practices by management, or H1 is accepted, with a regression coefficient of 0.072, t = 11.486, and significant at the 1% level. This finding supports agency theory and concentrated ownership pressure, where controlling owners tend to push management to adjust earnings reports to meet PEO financial expectations. Academically, this indicates that ownership structure has a strong influence on managerial behavior related to income smoothing in Asian capital markets, corroborating previous literature findings showing a positive relationship between ownership concentration and income smoothing. There is a significant positive effect between non-controlling ownership (NCI) and income smoothing practices, or H2 is accepted (coefficient 0.068, t = 12.891, p < 0.01). This indicates that minority shareholders also exert pressure that encourages management to engage in income smoothing practices. Theoretically, this study emphasizes that not only controlling owners but also minority investors play a role in shaping managerial decisions regarding earnings reporting, which may arise as management attempts to maintain minority investor confidence and mitigate volatility in market perceptions of company performance. This finding underscores the complexity of the influence of multi-level ownership on income smoothing behavior.

H3 is accepted, with independent commissioners moderating the influence of PEO and income smoothing. The results of the moderation model indicate that independent commissioner effectiveness weakens the effect of PEO on income smoothing. The PEO coefficient decreases from 0.072 in model 1 to 0.044*** in model 2 after moderation, and the PEO*IC interaction coefficient is negative (-0.112***, t = 17.605, p < 0.01). This finding indicates that independent commissioners act as an effective oversight mechanism in restraining pressure from controlling owners, thereby minimizing income smoothing practices. Academically, this study supports governance theory, which emphasizes the importance of independent external oversight in balancing managerial and ownership power, while strengthening the legitimacy of independent boards as income smoothing risk mitigators. H4 is accepted, the moderation of Independent Commissioners on NCI and Income Smoothing. Similarly, the NCI coefficient decreases from 0.068 in model 1 to –0.109*** in model 2 after the interaction with independent commissioners, with the NCI*IC coefficient being significantly negative (–0.109***, t = 18.453, p < 0.01). This indicates that the presence of independent commissioners also buffers the influence of pressure from non-controlling shareholders on income smoothing practices. This finding academically confirms that independent governance not only plays a role in monitoring majority ownership but can also balance the influence of minority investors, thereby ensuring managerial decisions remain oriented towards transparency and integrity of financial reporting.

The results of the control variable tests are as follows. The leverage ratio has a positive effect on income smoothing (0.048** with a t-value of 9.176), meaning that large debt creates external pressure from creditors and bondholders to maintain stable financial performance, so that management has an incentive to adjust earnings to meet debt obligations and reduce risk. Company size has a positive effect on income smoothing (0.026* with a t-value of 11.893), meaning that large operational scales increase the complexity of financial reports and market expectations for stable performance, so that income smoothing becomes a strategy to maintain reputation and investor trust. Audit reputation or Big 4 has a negative effect on income smoothing (-0.052* with a t-value of 9.109), meaning that high-quality auditors apply strict audit procedures and high standards of professionalism, thus limiting management's flexibility in manipulating earnings reports. Overall, these findings confirm that financial pressures and market expectations encourage income smoothing, while external monitoring mechanisms through credible auditors serve as a mitigator of this manipulative practice.

Table 4. Output of Hypothesis Testing

Variable	Y = Income smoothing (Eckel Index)	
	(5)	(6)
PEO	0.072*** (11.486)	0.044*** (14.572)
NCI	0.068*** (12.891)	0.035*** (14.347)
IC	–	–0.841*** (21.665)
PEO*IC	–	–0.112*** (17.605)
NCI*IC	–	–0.109*** (18.453)
LEV	0.046** (9.326)	0.048** (9.176)
SIZE	0.0271* (11,044)	0.026* (11.893)
AR	–0.048* (9.391)	–0.052* (9.109)
Country	YES	YES
Industry	YES	YES
Year	YES	YES
Constant	0.042 (7.438)**	0.051 (7.626)**
F-Statistics	11.478***	11.339***
Adjusted R	0.3481	0.3943

Note: The values above represent regression coefficients, indicating the magnitude of the effect of independent variables on the dependent variable, income smoothing (IS). Model 5 presents results before including the moderating variable, the independent committee (IC), while Model 6 includes the interaction with IC. The positive or negative sign denotes the direction of the effect, where a positive sign indicates a direct effect, and a negative sign indicates an inverse effect. ***, **, and * denote the significance levels of the regression coefficients at 1%, 5%, and 10%, respectively.

Robustness Test

We conducted a robustness test to determine the consistency of the hypothesis testing results by replacing the proxy measures of PEO and NCI pressure. Previously, we used the ROE ratio, or net profit divided by total equity attributable to PEO and NCI, to replace it with the ROA ratio, which is net profit attributable to PEO and NCI divided by total assets. Similarly, for the dependent variable, previously used the Eckel Index, we replaced it with discretionary accruals as a measure of earnings management, arguing that income smoothing and earnings management are forms of creative accounting. Earnings management was measured using the Modified Jones Model.

$$DA_{i,t} = \alpha + \beta_1 PEO_{i,t} + \beta_2 NCI_{i,t} + \beta_3 LEV_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 AR_{i,t} + \sum_{i=1}^{n} \beta_n \, Country\_Dummies_{i,t} + \sum_{i=1}^{n} \beta_n \, Industry\_Dummies_{i,t} + \sum_{i=1}^{n} \beta_n \, Year\_Dummies_{i,t} + \varepsilon_{i,t} \quad (7)$$

$$DA_{i,t} = \alpha + \beta_1 PEO_{i,t} + \beta_2 NCI_{i,t} + \beta_3 IC_{i,t} + \beta_4 PEO * IC_{i,t} + \beta_5 NCI * IC_{i,t} + \beta_6 LEV_{i,t} + \beta_7 SIZE_{i,t} + \beta_8 AR_{i,t} + \sum_{i=1}^{n} \beta_n \, Country\_Dummies_{i,t} + \sum_{i=1}^{n} \beta_n \, Industry\_Dummies_{i,t} + \sum_{i=1}^{n} \beta_n \, Year\_Dummies_{i,t} + \varepsilon_{i,t} \quad (8)$$

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Where,

DA = Discretionary accrual value of company i in period t,

PEO = Ratio of profit attributable to owners of the parent entity to total assets of company i in period t,

NCI = Ratio of profit attributable to NCI to total assets of company i in period t,

IC = Ratio of independent commissioners to total board members of company i in period t,

PEO*IC = Interaction variable between PEO pressure proxy and the effectiveness of independent commissioner supervision of company i in period t,

NCI*IC = Interaction variable between NCI pressure proxy and the effectiveness of independent commissioner supervision of company i in period t,

LEV = Debt to equity ratio of company i in period t,

SIZE = Natural logarithm of total assets of company i in period t,

AR = External auditor reputation, 1 = if audited by a BIG4 accountant, 0 = otherwise

Country = Dummy variable for the 12 countries where the sample companies are listed on the stock exchange.

Industry = Dummy variable for the 9 classifications of industrial sector types of the sample companies.

Year = Dummy variable for the four-year study period, 2021–2025.

α = Constant.

β = Regression coefficient of the independent variable.

ε = error.

The results of the model robustness test are shown in the table below:

Table 5. Output of Robustness Test with Alternative Proxy

Variable	Y = Earnings Management (Discressioner Accrual)	
	(3)	(4)
PEO (ROA)	0.069*** (10.06)	0.031*** (13.722)
NCI (ROA)	0.051*** (11.372)	0.032*** (12.437)
IC	–	–0.731*** (19.465)
PEO*IC	–	–0.092*** (15.205)
NCI*IC	–	–0.087*** (16.563)
LEV	0.032** (10.361)	0.041** (9.226)
SIZE	0.034* (11.044)	0.034* (10.378)
AR	–0.055* (11.916)	–0.031* (9.269)
Country	YES	YES
Industry	YES	YES
Year	YES	YES
Constant	0.038 (6.118)**	0.053 (7.876)**
F-Statistics	15.226***	11.249***
Adjusted R	0.3208	0.3177

Note: The values above represent regression coefficients, indicating the magnitude of the effect of independent variables on the dependent variable, earnings management measurement by discressioner accrual (DA). Model 7 presents results before including the moderating variable, the independent committee (IC), while Model 8 includes the interaction with IC. The positive or negative sign denotes the direction of the effect, where a positive sign indicates a direct effect, and a negative sign indicates an inverse effect.

***, **, and * denote the significance levels of the regression coefficients at 1%, 5%, and 10%, respectively.

Based on Table 5 above, it can be seen that the model is able to support the hypothesis despite different proxy variable measurements. Income smoothing, measured by the Eckel index, which represents creative accounting practices, was previously used as the dependent variable and then replaced with the modified Jones discretionary accruals measure as a measure of earnings management. The PEO and NCI measures, previously using ROE (PEO/NCI attributable profit divided by PEO/NCI attributable equity), were then replaced with ROA (PEO/NCI attributable profit divided by total assets), providing consistent evidence. In Model 3, PEO and NCI have a positive effect on discretionary accruals of 0.069*** (10.06) and 0.051*** (11.372), respectively. In Model 4, independent commissioners weaken the influence of PEO and NCI pressure on earnings management practices.

Endogeneity Issues.

We use the conventional Two-Stage Least Square (2 SLS) endogeneity procedure to ensure that our findings are free from endogeneity bias caused by the correlation between the independent variables and the error term. The main independent variables in this study are PEO pressure and NCI pressure. We use changes in ROE PEO (or ΔPEO) and changes in ROE NCI (or ΔNCI) as instrumental variables, as they meet the correlation criteria with shareholder pressure as the main independent variable but not with income smoothing as the dependent variable. Based on Table 6 below, when we include the instrumental variables ΔPEO and ΔNCI, the results are consistent with the main test, so we can conclude that the results of this study are relatively robust against potential endogeneity bias.

Table 6. (2SLS) regression results with instrument variable ΔPEO and ΔNCI.

Variable	Y = Income smoothing (Eckel Index)	
	(1)	(2)
PEO	0.074*** (12.386)	0.045*** (14.372)
NCI	0.061*** (13.491)	0.032*** (14.147)
IC	–	–0.836*** (21.235)
PEO*IC	–	–0.172*** (17.425)
NCI*IC	–	–0.123*** (18.653)
LEV	0.046** (9.326)	0.044** (9.146)
SIZE	0.0271* (11.044)	0.023* (11.703)
AR	–0.048* (9.391)	–0.052* (9.109)
Country	YES	YES
Industry	YES	YES
Year	YES	YES
Constant	0.042 (7.438)**	0.051 (7.626)**
F-Statistics	15.338***	17.192***
Adjusted R	0.3371	0.3813
Instrument Variable	ΔPEO, ΔNCI	ΔPEO, ΔNCI

Note : The values above represent regression coefficients, indicating the magnitude of the effect of independent variables on the dependent variable, income smoothing (IS). Model 1 presents results before including the moderating variable, the independent committee (IC), while Model 2 includes the interaction with IC. The positive or negative sign denotes the direction of the effect, where a positive sign indicates a direct effect, and a negative sign indicates an inverse effect. ***, **, and * denote the significance levels of the regression coefficients at 1%, 5%, and 10%, respectively. Instrument Variable ΔPEO and ΔNCI.

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The influence of pressure from shareholders (owners of the parent entity) on income smoothing.

Income smoothing occurs due to pressure from the owners of the parent entity (OPE). OPEs are the largest providers of funds to an entity. OPEs invest substantial amounts of their funds, and they expect many of these investments to be long-lasting and profitable. OPEs are interested in the entity's continued, sustainable growth indefinitely, so that economic benefits or returns on investment continue to flow to them over time, in line with the company's lifespan. For a company to have longevity, profitability must be stable across periods. Achieving this stable profitability requires significant resource input, which will then be used to purchase high-quality raw materials, recruit and train a professional workforce, develop their skills, invest heavily in marketing, and invest in equipment, all of which also require significant funding. Achieving these goals requires substantial funding. If internal funding sources are insufficient, external funding sources are needed, either from securities investors or credit investors. This aligns with the capital structure (MM) trade-off theory. To instill confidence and trust in potential investors, the OPE, through its representation on the board of directors, directly involved in operational and strategic policies, encourages income smoothing. In line with Cressey's fraud triangle theory, pressure from large, powerful, and dominant parties encourages management to smooth the presentation of earnings. OPE intervention can easily influence management actions due to its significant control over management activities, including the presentation of accounting reports. OPEs view stable earnings as more attractive to potential investors and creditors than fluctuating earnings. Stable earnings are more convincing in assessing a company's ability to deliver future returns on investment.

In addition to the incentive to obtain additional external funding from potential investors and creditors, OPEs' interest in stable earnings is also related to their own investment returns. OPEs place significant value on the ability of their agents to generate profits. Armed with control and dominance at general shareholder meetings, OPEs determine who sits on the board of directors and board of commissioners to facilitate the achievement of their goal of maximizing welfare through stabilizing financial performance and company growth. The flow of returns received by OPE is highly dependent on profitability. They view high and stable profitability each period as representing good management performance and is related to smooth dividend payments and the company's confidence in growing and surviving over a longer period. To ensure OPE satisfaction with management performance, management is encouraged to undertake income smoothing actions. In line with agency theory (JM 76), the asymmetry of information between management and OPE, as well as the divergence of interests between management and OPE, provides an opportunity for management, as an agent, to fulfill its own interests. Many bonuses, salary increases, and job promotions are determined by management's ability to achieve profitability targets and/or maintain profitability stability between periods, and this objective stimulates management to undertake income smoothing.

The influence of pressure from non-controlling interest shareholders on income smoothing.

NCI is the portion of equity in a subsidiary not owned by the parent entity. NCI represents the rights of other parties, or minority shareholders, in a subsidiary where the subsidiary is predominantly owned by the parent entity. NCI appears in the consolidated financial statements and is presented in the equity account attributable to NCI on the statement of financial position, as well as in the net income and comprehensive income account attributable to NCI on the statement of comprehensive income. NCI are minorities in the subsidiary's shareholding structure; they do not have control rights over the entity in relation to strategic policies, the right to determine the composition of the board of directors, voting rights, which may be limited, and no rights or interventions over the company's operations. However, NCI remain shareholders and not part of the equity; therefore, NCI are entitled to the company's profits and net assets. Although NCI are small and do not have controlling rights, they still have an interest in the company's profitability because of their investment motives, namely obtaining returns in the form of capital gains and dividends.

High profitability positively impacts share prices (Aydogmus, 2022) and impacts the capital gains that NCI will receive if it divests its shares. If it retains its ownership, NCI will receive dividends, as dividend payments are heavily influenced by profitability (Seth, 2022); (Chasiotis, 2024). This pressure from NCI stimulates management to smooth earnings, ensuring NCI's satisfaction with management performance. Although it lacks controlling rights, NCI retains voting rights at the General Meeting of Shareholders (GMS) and is represented on the board of commissioners. This motivates management to satisfy NCI's desires, ensuring a secure position in the GMS, under supervision by the board of directors, and possibly, under certain circumstances, NCI may exercise its veto power over management performance. With high and relatively stable profits, NCI has the confidence to expect future investment returns, thus viewing stable profits as a must-achieve goal for management.

NCIs are retail investors who dominate the capital market. Although their funds are small, they are numerous and active. To some extent, NCIs contribute to shaping market mechanisms that influence the equilibrium point of stock prices. The supply and demand of shares traded on the stock exchange are also influenced by the NCI market. Management desires stable profits to attract potential retail investors, who will act as NCIs, to purchase shares. The more interested investors, the higher the stock price. The higher the stock price, the more cash received from share sales, which is recognized as share premium by the company. The higher the stock price, the greater the inflow of funds, the better the company's image in the eyes of the market, and the better the management's reputation among stakeholders and potential investors. NCIs are motivated by stable profits, which is linked to other motivations in investing. The goal of NCI investing is not to control, but to become part of a reputable company. This is related to the motivation of strategic partners, building long-term relationships, and securing other objectives such as material supply or markets for finished products. It also considers stable profitability. NCI is also motivated to invest for security or portfolio diversification, and ultimately, they also expect investment returns from stable profitability. This also encourages management to smooth earnings, once again favoring NCI.

Because NCI's shareholding is insignificant and lacks control, its pressure on management to engage in income smoothing is also limited. However, limited does not mean zero. In entities with substantial NCI ownership, for example, 30% or slightly below 49%, NCI ultimately has the power to pressure management to smooth income. NCI can form coalitions, influence the GMS, and use governance mechanisms. NCI's pressure is also significant when the NCI is owned by institutional investors who have board seats or representation on the board of directors or commissioners, and protective provisions or the right to have their interests protected. From an agency theory perspective, the NCI's motivation to pressure management to engage in income smoothing can be understood as an effort to mitigate the risk of cash flow uncertainty and earnings volatility, which could potentially reduce the value of their investment. As a minority shareholder with no direct control, the NCI relies heavily on earnings information as a basis for performance evaluation and dividend distribution. Earnings stability is perceived as a signal of business sustainability, reduces perceived market risk, and maintains the company's stock price and reputation. Therefore, under certain circumstances, the NCI can encourage management to dampen earnings fluctuations to maintain a consistent performance image, even if such practices conflict with long-term transparency interests.

The effectiveness role of independent commissioner weakens the influence of pressure from shareholders, owners of the parent entity, on management's income smoothing practices.

An independent commissioner is a member of the board of commissioners who has no affiliations or financial interests that could affect their objectivity. General criteria include not being a controlling shareholder, controlling family member, or controlling related party, not having significant business or financial relationships with entities that could influence decisions, possessing professional ability, industry knowledge, and a good reputation. The purpose of an independent commissioner is to ensure the implementation of corporate

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governance remains objective and transparent. Independent commissioners typically include senior professionals with extensive managerial experience, academics, members of political parties or those connected to political interests, and former officials. In large group holding entities, independent commissioners may serve in several subsidiaries to ensure consistent oversight.

The duties of an independent commissioner include oversight, strategic decision-making, and protecting the interests of minority shareholders. They objectively evaluate the performance of the board of directors, assess important policies and decisions such as affiliated transactions, mergers, or divestitures, and ensure compliance with regulations and the company's code of ethics. In addition, independent commissioners often sit on vital committees such as the audit committee, risk committee, and remuneration committee to assess financial reports, oversee risk management, and assess compensation structures to ensure fairness and transparency, while providing independent reports to the GMS and acting as a watchdog that maintains the company's accountability and credibility, especially for minority shareholders who do not have direct control over management decisions.

From an agency theory perspective, independent commissioners have the ability to mitigate the pressure of majority shareholders or parent entities that encourage management to engage in income smoothing practices by acting as objective supervisors who separate the interests of the controlling party from the interests of the company as a whole; through their positions on the board of commissioners of both parent and subsidiary entities, independent commissioners can oversee strategic and operational decisions, verify financial reports, and assess managerial policies that risk resulting in profit manipulation, so that their presence in a group structure that integrates independent commissioners of parent and subsidiary entities allows for consistent supervision, mitigation of excess controlling influence, and protection of minority interests, while upholding the principles of good corporate governance that emphasize transparency, accountability, and a balance of power between majority owners and management.

The effectiveness role of independent commissioners weakens the influence of pressure from non-controlling interest shareholders on management's actions to carry out income smoothing.

Within the framework of agency theory, a Non-Controlling Interest (NCI) with significant ownership, for example, approaching 45%, can exert pressure on management to engage in income smoothing practices, as the NCI tends to prefer stable earnings as an indicator of company performance and as a basis for dividend distribution. This pressure can increase if the NCI is able to form a coalition with other minority shareholders or has sufficient access to information to monitor the performance of the subsidiary, thus encouraging management to mitigate earnings fluctuations to meet its expectations, even though this may not always align with the principles of transparency and long-term accountability. This situation reflects a typical conflict of interest in a Type II agency conflict, namely between the minority shareholder (NCI) and the entity's controller/management.

Independent commissioners play a strategic role in weakening the influence of NCI pressure on income smoothing practices through an objective and independent oversight function. In a group structure with a parent and subsidiaries, independent commissioners of the parent who also serve on the subsidiary's board can consistently monitor operational policies and financial statements, assess potentially manipulative managerial decisions, and provide recommendations or vetoes against practices that undermine the integrity of the financial statements. The presence of independent commissioners within the group strengthens internal governance mechanisms, thus minimizing NCI's ability to coerce management into engaging in income smoothing through systematic and comprehensive oversight.

Furthermore, the role of independent commissioners is also reflected in their involvement in strategic committees, such as the audit committee, risk committee, and remuneration committee, which serve as instruments for assessing the accuracy of financial reports, evaluating the risks of earnings management practices, and balancing the interests of various parties within the group companies. Thus, although NCI holds significant

power through its majority minority ownership and coalition-building capabilities, their influence over management decisions can be mitigated by independent commissioners who uphold the principles of good corporate governance, transparency, and accountability. This minimizes income smoothing in response to NCI pressure and maintains the integrity of the financial statements.

CONCLUSION

Based on the results of this study, it can be concluded that pressure from parent entity owners (PEOs) and non-controlling interests (NCIs) significantly encourage management to engage in income smoothing practices in public companies in 12 Asian countries during the 2021–2025 period. These results are consistent when measuring earnings using both the ROE and ROA ratios, demonstrating the robustness of the research model against changes in measurement proxies. Furthermore, the effectiveness of the role of independent commissioners is proven to moderate and weaken the influence of pressure from both types of shareholders on management actions, underscoring the importance of independent internal oversight in mitigating earnings manipulation practices. Endogeneity testing using the Two-Stage Least Squares (2SLS) method with ΔPEO and ΔNCI instruments confirms that this study's findings are free from endogeneity bias, thus providing strong empirical evidence of a causal relationship between shareholder pressure and income smoothing. The originality of this study lies in separating shareholder pressure based on ownership type (PEO and NCI) and examining the moderating role of independent commissioners on both pressures. This also fills a gap in the literature regarding the mechanisms of external pressure on management in a multi-country Asian context. These findings support the agency theory framework by confirming that conflicts of interest between shareholders and management can motivate earnings manipulation practices. This is consistent with the dimensions of the fraud triangle, where shareholder pressure is one element that drives the risk of income smoothing, and independent oversight (board oversight) serves as a control to reduce the opportunity for income smoothing practices.

Limitations of this study include the limited scope of variables, which are limited to shareholder pressure and the effectiveness of independent commissioners, without considering other internal factors such as management incentive structure, corporate culture, or external audit quality, which can also influence income smoothing practices. Future research is recommended to expand the model by adding variables such as management remuneration structure, audit intensity, or additional corporate governance mechanisms (e.g., the role of the audit committee or a professional board of directors) to gain a more comprehensive understanding of the determinants of income smoothing practices across various corporate contexts. For practitioners, the findings of this study offer several important implications. Potential investors and creditors should consider shareholder pressure and income smoothing practices when assessing the quality of financial reports, allowing for more accurate evaluations of investment or credit risk. For parent and subsidiary management, these results underscore the importance of maintaining healthy communication between shareholders and management and ensuring the effectiveness of independent commissioners in their oversight role to mitigate the risk of earnings manipulation and strengthen corporate accountability. Thus, this study not only enriches the academic literature but also provides practical guidance for more prudent and sustainable financial decision-making.

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