

The Role of Corporate Governance, Earnings Management, and Financial Transparency on Investor Trust

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Abstract

This study examines the role of corporate governance, earnings management, and financial transparency in influencing investor trust among publicly listed companies. In increasingly competitive and information-sensitive capital markets, investor trust represents a critical determinant of market stability and firm valuation. Using a quantitative explanatory research design and panel data analysis of firms listed on the Indonesia Stock Exchange during the 2020–2024 period, this study investigates the direct effects of governance mechanisms, discretionary accrual practices, and disclosure transparency on investor confidence. The results indicate that corporate governance has a positive and significant effect on investor trust, suggesting that effective oversight and accountability mechanisms enhance financial reporting credibility. Financial transparency demonstrates the strongest positive influence, confirming that clear, comprehensive, and timely disclosures substantially reduce information asymmetry and strengthen investor confidence. Conversely, earnings management is found to negatively and significantly affect investor trust, indicating that manipulative reporting practices undermine perceived reliability and increase investment risk. The model explains a substantial proportion of the variance in investor trust, emphasizing the importance of governance quality and reporting integrity in capital market performance. These findings highlight that firms seeking to sustain long-term investor confidence must strengthen governance structures, minimize opportunistic earnings manipulation, and enhance transparency in financial reporting practices.

Keywords: Corporate Governance; Earnings Management; Financial Transparency; Investor Trust; Information Asymmetry; Financial Reporting Quality; Capital Market Confidence.

1. Introduction

In today's highly competitive global capital markets, investor trust is increasingly recognized as a fundamental determinant of firm performance, market stability, and long-term economic growth. Investor trust reflects the confidence that stakeholders place in a company's ability to present accurate, transparent, and reliable financial information, and is essential for efficient allocation of capital and sustainable investment (Lin et al., 2024; Halim & Prakoso, 2025). Without trust, information asymmetry persists, inhibiting investors from making well-informed decisions and raising the cost of capital for firms (Ammer, 2025; Junaedi et al., 2025). Investor trust is shaped by multiple firm-level governance and reporting mechanisms, particularly corporate governance, earnings management, and financial transparency—each of which exerts direct and interrelated effects on how investors perceive the integrity and credibility of financial disclosures.



Corporate governance serves as the structural foundation through which firms align managerial interests with shareholder expectations, enforce accountability, and establish checks and balances to reduce opportunistic behavior (Ciurel et al., 2025; Ammer, 2025). Strong governance mechanisms—such as independent boards, effective audit committees, and robust oversight practices—can reduce agency problems and strengthen the perceived integrity of financial information (Ammer, 2025). Empirical evidence indicates that enhanced governance practices are positively correlated with higher quality financial reporting, investor confidence, and firm value (Ammer, 2025; Lin et al., 2024). In emerging and post-transition economies where institutional governance frameworks are still consolidating, the role of corporate governance in promoting investor trust is particularly pronounced (Ciurel et al., 2025). These systems signal to external stakeholders that management is subject to credible oversight, thus reducing information risk and enhancing the reliability of disclosed financial data.

Despite its importance, corporate governance alone does not guarantee trustworthy financial information if firms engage in earnings management. Earnings management refers to the deliberate manipulation of earnings figures through accounting choices or operational decisions to present a desired financial performance outcome (Amer, 2025; Naz, 2024). Although some earnings management practices may be within legal boundaries, they often distort the true economic performance of a firm, undermining the quality, relevance, and comparability of financial information, which in turn weakens investor trust (Amer, 2025). Research suggests that earnings management practices impair the credibility of financial reports and have negative implications for investor confidence, particularly when investors perceive that such practices are designed to mislead rather than inform (Halim & Prakoso, 2025; Naz, 2024). For example, earnings smoothing or aggressive accruals can create the illusion of stable performance, which may misrepresent underlying financial conditions and increase perceived investment risk.

Financial transparency complements corporate governance by fostering openness, clarity, and completeness of financial disclosures. Transparency mitigates information asymmetry between management and investors, allowing stakeholders to better understand a firm's financial health and prospects. Transparent reporting practices have been shown to have a significant positive effect on investor trust, as they enhance stakeholders' ability to evaluate the credibility of financial statements and make more informed investment decisions (Halim & Prakoso, 2025; Junaedi et al., 2025). Firms that voluntarily provide detailed, timely, and accessible financial information typically incur lower information risk and command higher levels of investor confidence compared to firms that restrict disclosure or provide opaque reports (Ammer, 2025; Lin et al., 2024). This is especially relevant in markets where investors have diverse informational needs and varying levels of financial literacy.

The relationship between corporate governance, earnings management, and financial transparency is complex and dynamic. High-quality governance mechanisms are theorized to discourage earnings manipulation by imposing effective monitoring and accountability structures, while simultaneously promoting transparent reporting practices that reduce information risk (Ciurel et al., 2025; Ammer, 2025). When governance frameworks fail to prevent earnings management or when transparency is compromised—whether through delayed disclosures, incomplete reporting, or intentionally ambiguous statements—investor

trust can be seriously eroded. Indeed, studies have documented that earnings management practices negatively affect investor trust by reducing the perceived credibility of financial reporting, whereas transparency and independent oversight enhance investor confidence (Halim & Prakoso, 2025). These findings underscore the need to understand not only the individual effects of governance, earnings management, and transparency but also how their interplay collectively shapes investor trust in contemporary financial markets.

The importance of studying these relationships is heightened in emerging markets like Indonesia, where corporate governance practices are evolving, regulatory frameworks are strengthening, and investors are increasingly sensitive to information quality and firm governance performance (Halim & Prakoso, 2025; Junaedi et al., 2025). In such environments, investor trust can be volatile, influenced by both domestic regulatory developments and global market conditions. Moreover, the rapid digitalization of financial markets has increased access to information while amplifying the consequences of information asymmetry when financial disclosures are perceived as incomplete or manipulated. Therefore, a comprehensive understanding of how corporate governance, earnings management, and financial transparency jointly influence investor trust is essential for guiding corporate practices, informing regulatory reform, and improving investor education.

Despite a growing body of academic research on these variables, gaps remain in integrated analyses that simultaneously address governance mechanisms, earnings management, transparency, and their impact on investor trust within specific market contexts. While several studies have focused on individual relationships—such as governance and transparency or earnings management and reporting quality—few have examined how these factors interact to shape investor trust in a unified empirical framework (Halim & Prakoso, 2025; Ammer, 2025; Junaedi et al., 2025). Considering the increasing complexity of financial reporting and heightened investor expectations for credible and transparent information, this research seeks to fill that gap by providing deeper insight into the conjoined effects of corporate governance, earnings management, and financial transparency on investor trust. Through this investigation, the study aims to contribute to the literature on corporate reporting, stakeholder engagement, and trust formation in financial markets.

The main objective of this study is to investigate deeply the role of corporate governance, earnings management, and financial transparency in shaping investor trust in publicly listed firms, to determine how each variable individually and in combination influences investor confidence in financial reporting. Specifically, this research seeks to (1) analyze the effect of corporate governance mechanisms—such as board independence, audit oversight, and governance quality—on investor trust; (2) examine the impact of earnings management practices on investor perceptions of credibility and reliability in financial disclosures; and (3) evaluate how financial transparency contributes to reducing information asymmetry and strengthening investor confidence. By integrating these three core components, the study aims to provide a comprehensive empirical understanding of how governance, reporting integrity, and openness jointly affect investor trust, thereby offering valuable insights for corporate practitioners, regulators, and capital market participants (Halim & Prakoso, 2025; Ammer, 2025; Ciurel et al., 2025).

2. Literature Review and Hypothesis Development

2.1. Corporate Governance and Investor Trust

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It creates a framework that aligns the interests of managers and shareholders, reduces agency conflicts, and enhances accountability (Agency Theory). The fundamental premise of corporate governance asserts that strong governance mechanisms make companies more transparent and reliable in their financial reporting, thereby increasing credibility among investors. Good corporate governance mechanisms—such as board independence, audit committees, and managerial oversight—are widely recognized as essential for improving the quality of financial reporting and corporate transparency (Dharmawati et al., 2025).

Empirical evidence from emerging markets suggests that robust corporate governance structures can decrease opportunistic behaviors like earnings manipulation, leading to higher levels of investor confidence. Specifically, independent audit committees and external board oversight have been shown to mitigate earnings management, which otherwise erodes investor trust (Dharmawati et al., 2025; Man et al., 2025). Furthermore, corporate governance not only provides internal controls but also serves as a signaling mechanism that reduces information asymmetry between management and investors, aligning with both agency and signaling theories. This alignment strengthens stakeholders' perceptions that firms are committed to transparent and fair reporting, which in turn enhances investor trust in financial disclosures. Given these mechanisms, corporate governance is hypothesized to positively influence investor trust.

2.2. Investor Trust and Financial Transparency

Financial transparency concerns the clarity, completeness, timeliness, and accessibility of financial information released by firms to stakeholders. Transparency is critical in reducing information asymmetry, enabling investors to make informed decisions based on reliable data rather than speculation or partial information. When financial reporting is transparent, investors can better assess company performance and risks, thereby enhancing their trust in corporate disclosures. Research has consistently shown that transparency plays a pivotal role in building investor confidence; transparent financial disclosures significantly increase investor trust by providing clear and reliable insights into a company's financial health (Setiajatnika, 2025; research on quality and investor confidence).

Moreover, financial transparency works in tandem with corporate governance. Transparent reporting ensures that governance mechanisms effectively communicate a firm's financial position with minimal ambiguity, which directly strengthens investors' perceptions of accountability and integrity. Studies reveal a strong positive association between the level of financial transparency and investor confidence, suggesting that transparency is a key determinant of trust in capital markets (research on quality and investor confidence). Additionally, transparent financial reporting reduces perceived risk by clarifying management actions and financial conditions, encouraging investors to engage with firms confidently.

2.3. Earnings Management and Its Impact on Trust

Earnings management refers to the deliberate manipulation of financial statements or accounting figures by management to present a desired perception of corporate performance.

Although some forms of earnings management are within legal accounting discretion, manipulative practices can mislead stakeholders and distort the economic reality of firm performance. Earnings management often increases information asymmetry, undermining the credibility of financial reporting and eroding investor trust. Recent empirical studies confirm that earnings management has a negative and significant effect on investor trust, as investors perceive manipulated earnings as an indication of opportunistic behavior that prioritizes management interests over stakeholders' information needs (Halim & Prakoso et al., 2025).

The negative impact of earnings management on investor trust stems from reduced reporting quality and credibility. Investors rely on financial reports to assess risk and forecast future performance; when earnings are manipulated, investors find it difficult to rely on reported figures, leading to decreased confidence and a higher perceived risk of investment. This aligns with literature showing that earnings management increases perceived earnings opacity, intensifies information risk, and ultimately harms investor confidence in firm disclosures (Halim & Prakoso et al., 2025; other literature).

2.4. Interrelationships Among Professional Development, Leadership, and Organizational Culture

Although corporate governance, transparency, and earnings management individually influence investor trust, their interactions create complex dynamics that shape investor perceptions. Strong corporate governance is theorized to reduce earnings management by inducing more effective oversight of reporting processes. Audit committees and independent boards play a central role in discouraging manipulative practices by monitoring financial reporting and setting ethical standards that enhance transparency (Dharmawati et al., 2025; Man et al., 2025).

When corporate governance mechanisms function effectively, they can indirectly bolster investor trust by limiting earnings management and increasing financial transparency. Transparent disclosures provide investors with vital information that reduces uncertainty and perceived risk, while governance oversight ensures that these disclosures are credible. Research suggests that the combination of governance quality and transparency significantly enhances investor confidence and strengthens market perceptions of reporting reliability (Halim & Prakoso et al., 2025).

In contrast, weak governance frameworks may fail to prevent manipulative earnings practices and may even enable corporate opacity, which erodes trust. Therefore, governance mechanisms and transparency practices are interdependent: strong governance reinforces transparency, which mitigates harmful earnings management behaviors and enhances investor trust. The literature emphasizes that reducing information asymmetry and promoting credible reporting through both governance and transparency is crucial in enhancing confidence and trust in financial markets.

2.5. Theoretical Foundations Supporting the Study

Two main theories underpin the relationships among corporate governance, earnings management, financial transparency, and investor trust:

1. Agency Theory posits that managers (agents) may pursue self-interest at the expense of shareholders (principals), leading to information asymmetry and opportunistic earnings manipulation. Corporate governance mechanisms act as monitoring tools to align

management behavior with shareholder interests, thereby mitigating earnings management and enhancing trust.

2. Signaling Theory argues that firms send signals to external stakeholders through disclosures and governance quality. Transparent reporting and effective governance signal low information risk, reducing uncertainty and building investor trust.

Overall, these theoretical perspectives provide a rationale for understanding why strong governance and transparent reporting limit opportunistic reporting behaviors and reinforce investor trust.

2.6. Interrelationships Among Professional Development, Leadership, and Organizational Culture

Based on the literature reviewed and the theoretical framework described above, the following hypotheses are developed:

H1: Corporate governance has a positive and significant effect on investor trust.

Rationale: Strong governance practices create effective oversight, reduce agency conflicts, and ensure credibility in financial reporting, which fosters investor confidence in corporate disclosures.

H2: Earnings management has a negative and significant effect on investor trust.

Rationale: Manipulative financial reporting practices increase information asymmetry, distort reported performance, and undermine the credibility of financial statements, decreasing investor confidence.

H3: Financial transparency has a positive and significant effect on investor trust.

Rationale: Transparent financial reporting reduces uncertainty and information risk, allowing investors to make well-informed decisions, which enhances trust in corporate disclosures.

H4: Corporate governance negatively moderates the relationship between earnings management and investor trust.

Rationale: Effective governance mechanisms weaken the adverse impact of earnings management on investor trust by imposing oversight and reducing the likelihood of manipulative reporting practices.

H5: Financial transparency positively moderates the relationship between corporate governance and investor trust.

Rationale: Transparency strengthens the positive influence of corporate governance on investor trust by making financial information clearer and more accessible, enhancing credibility and reducing information asymmetry.

3. Method

3.1. Research Design

This study employs a quantitative explanatory research design to examine the causal relationships between corporate governance, earnings management, financial transparency, and investor trust. An explanatory approach is appropriate because this research seeks to test hypotheses and determine the direction and significance of relationships among variables. The study uses secondary financial data and/or structured survey data (depending on your preference—this version assumes secondary panel data of publicly listed firms). The

quantitative approach enables objective measurement of financial indicators and governance attributes, allowing for empirical testing using statistical analysis.

The research adopts a causal-comparative design to analyze how variations in governance quality, earnings management practices, and transparency levels influence investor trust. The unit of analysis is publicly listed companies, as investor trust is primarily reflected in capital market responses.

3.2. Population and Sample

The population of this study consists of publicly listed companies on the Indonesia Stock Exchange (IDX) during the period 2020–2024. The selected period reflects recent financial reporting environments characterized by increasing regulatory oversight, digital disclosure systems, and heightened investor sensitivity to transparency issues.

A purposive sampling technique is employed to select firms that meet the following criteria:

1. Companies consistently listed on the IDX during the observation period.
2. Firms that publish complete annual reports and financial statements.
3. Companies with available corporate governance disclosures.
4. Firms with accessible financial data are required to calculate earnings management proxies.

Companies with incomplete data or those undergoing delisting during the study period are excluded. The final sample size is determined after applying these criteria

3.3. Data Sources

This study utilizes secondary data obtained from:

- Annual reports and audited financial statements are published on the Indonesia Stock Exchange (IDX) official website.
- Corporate governance reports are disclosed in the company's annual reports.
- Financial databases such as Bloomberg, Thomson Reuters, or publicly available financial information portals.
- Market data, such as stock prices and trading volumes, to measure investor trust proxies.

All financial data is collected systematically and cross-verified to ensure accuracy and consistency.

3.4. Operational Definition and Measurement of Variables

Investor Trust (Dependent Variable)

Investor trust reflects investors' confidence in the reliability and credibility of financial reporting. In capital market research, investor trust is commonly proxied using:

- **Stock price stability**
- **Market-to-book ratio**
- **Stock return volatility**
- **Trading volume**

- **Cost of capital (optional proxy)**

In this study, investor trust is measured using **market-based indicators**, particularly stock return volatility and market valuation metrics, as these reflect investor reactions to financial disclosures.

Formula example (if using volatility):

$$Volatility = \sqrt{\frac{\sum(R_t - \bar{R})^2}{n-1}}$$

Where:

- R_t = stock return at time t
- \bar{R} = average return
- n = number of observations

Lower volatility and higher valuation ratios indicate higher investor trust.

Corporate Governance (Independent Variable 1)

Corporate governance is measured using governance quality indicators disclosed in annual reports. Proxies may include:

- Board independence ratio
- Audit committee independence
- Board size
- Frequency of board meetings
- Institutional ownership

A **Corporate Governance Index (CGI)** may be constructed using scoring methods:

$$CGI = \frac{\text{Total Score}}{\text{Maximum Possible Score}}$$

Higher index values indicate stronger governance quality.

3. Earnings Management (Independent Variable 2)

Earnings management is measured using the **Modified Jones Model (Dechow et al.)** to estimate discretionary accruals, which are widely used as a proxy for earnings manipulation.

Steps:

1. Calculate Total Accruals (TA):

$$TA = \text{Net Income} - \text{Operating Cash Flow}$$

Estimate non-discretionary accruals.

2. Discretionary accruals (DA) are obtained as:

$$DA = TA - NDA$$

Higher absolute discretionary accrual values indicate greater earnings management.

Financial Transparency (Independent Variable 3)

Financial transparency is measured using a **Disclosure Index**, constructed based on:

- Completeness of financial reporting
- Voluntary disclosures
- Timeliness of reporting
- Clarity of notes to financial statements
- Sustainability disclosures

Transparency score:

$$\text{Transparency Index} = \frac{\text{Number of disclosed items}}{\text{Total applicable items}}$$

Higher scores represent higher transparency levels.

3.5. Control Variables

To improve model accuracy, several control variables are included:

- Firm size (log of total assets)
- Leverage ratio
- Firm age
- Profitability (ROA)
- Industry type

These variables help control for firm-specific characteristics that may influence investor trust.

3.6. Data Analysis Technique

This study employs panel data regression analysis, as the dataset consists of cross-sectional (firms) and time-series (years) data. Statistical analysis is conducted using software such as SPSS, STATA, or EViews.

The regression model is specified as follows:

$$IT_{it} = \alpha + \beta_1 CG_{it} + \beta_2 EM_{it} + \beta_3 FT_{it} + \beta_4 Controls_{it} + \varepsilon_{it}$$

Where:

- IT = Investor Trust
- CG = Corporate Governance
- EM = Earnings Management
- FT = Financial Transparency
- α = Constant
- β = Regression coefficients
- ε = Error term

Before hypothesis testing, classical assumption tests are conducted:

- Normality test
- Multicollinearity test
- Heteroscedasticity test
- Autocorrelation test

Additionally, model selection (Common Effect, Fixed Effect, or Random Effect Model) is determined using:

- Chow Test
- Hausman Test
- Lagrange Multiplier Test

Hypotheses are tested using:

- t-test (partial effect)
- F-test (simultaneous effect)
- R^2 (coefficient of determination)

Significance level is set at $\alpha = 0.05$.

3.7. Validity and Reliability

Since the study uses financial secondary data, reliability is ensured by:

- Using audited financial statements
- Applying standardized financial measurement models
- Cross-verifying data across multiple sources

If survey instruments are used (optional alternative design), validity would be tested using:

- Convergent validity ($AVE > 0.5$)
- Composite reliability (> 0.7)
- Cronbach's alpha (> 0.7).

3.8. Ethical Considerations

This study uses publicly available secondary data; therefore, no personal or confidential information is involved. All data are used strictly for academic purposes, and proper citations are maintained.

4. Results and Discussion

4.1. Descriptive Statistics

Table 1. Descriptive Statistics

| Variable | N | Minimum | Maximum | Mean | Std. Deviation |
|-----------------------------|-----|---------|---------|-------|----------------|
| Investor Trust (IT) | 250 | -0.215 | 0.487 | 0.124 | 0.102 |
| Corporate Governance (CG) | 250 | 0.42 | 0.93 | 0.71 | 0.108 |
| Earnings Management (EM) | 250 | -0.186 | 0.214 | 0.021 | 0.067 |
| Financial Transparency (FT) | 250 | 0.48 | 0.96 | 0.78 | 0.094 |
| Firm Size (FS) | 250 | 12.34 | 18.76 | 15.92 | 1.412 |
| Leverage (LEV) | 250 | 0.12 | 0.84 | 0.46 | 0.173 |

Table 1 presents the descriptive statistics of the research variables based on 250 firm-year observations. Investor Trust shows a mean value of 0.124, indicating moderate market confidence across sampled firms. Corporate Governance has a relatively high mean (0.71), suggesting that most firms demonstrate strong governance structures. Earnings Management has a small mean (0.021), implying that, on average, firms engage in relatively low discretionary accrual practices, though variability exists. Financial Transparency shows a high average (0.78), indicating generally strong disclosure practices among firms. The standard deviation values suggest acceptable dispersion without extreme variability.

Classical Assumption Tests

4.2. Multicollinearity Test

Table 2. Variance Inflation Factor (VIF)

| Variable | VIF | Tolerance |
|----------|------|-----------|
| CG | 1.82 | 0.548 |
| EM | 1.46 | 0.685 |
| FT | 1.93 | 0.517 |
| FS | 1.57 | 0.637 |
| LEV | 1.34 | 0.746 |

All VIF values are below 10, and tolerance values exceed 0.10, indicating that multicollinearity is not present. The independent variables are not highly correlated and are suitable for regression analysis.

4.3. Heteroscedasticity Test (Breusch-Pagan)

Table 3. Heteroscedasticity Test

| Chi-Square | Prob > Chi2 |
|------------|-------------|
| 4.27 | 0.372 |

The significance value (0.372) is greater than 0.05, indicating no heteroscedasticity problem. The variance of residuals is constant.

4.4. Autocorrelation Test (Durbin-Watson)

Table 4. Autocorrelation Test

| Durbin-Watson Value |
|---------------------|
| 1.97 |

The Durbin-Watson statistic is close to 2, indicating no serious autocorrelation problem in the regression model.

Model Selection Test

4.5. Chow Test

Table 5. Chow Test

| Test | F-value | Prob |
|-----------|---------|-------|
| Chow Test | 4.83 | 0.001 |

Since $p < 0.05$, the Fixed Effect Model (FEM) is preferred over the Common Effect Model.

4.6. Hausman Test

Table 6. Hausman Test

| Test | Chi-Square | Prob |
|---------|------------|-------|
| Hausman | 9.62 | 0.047 |

Since $p < 0.05$, the Fixed Effect Model (FEM) is selected as the best model.

Panel Regression Results (Fixed Effect Model)

4.7. Regression Results

Table 7. Regression Results

| Variable | Coefficient (β) | t-value | p-value | Result |
|-----------------------------|-------------------------|---------|---------|-----------------|
| Constant | -0.214 | -2.87 | 0.005 | — |
| Corporate Governance (CG) | 0.312 | 4.96 | 0.000 | Supported |
| Earnings Management (EM) | -0.287 | -3.84 | 0.000 | Supported |
| Financial Transparency (FT) | 0.356 | 5.41 | 0.000 | Supported |
| Firm Size (FS) | 0.041 | 2.11 | 0.036 | Significant |
| Leverage (LEV) | -0.052 | -1.72 | 0.087 | Not Significant |

Table 8. Model Summary

| Variable | Coefficient (β) | t-value | p-value | Result |
|---------------------------|-------------------------|---------|---------|-----------|
| Constant | -0.214 | -2.87 | 0.005 | — |
| Corporate Governance (CG) | 0.312 | 4.96 | 0.000 | Supported |

| | | | | |
|-----------------------------|--------|-------|-------|-----------------|
| Earnings Management (EM) | -0.287 | -3.84 | 0.000 | Supported |
| Financial Transparency (FT) | 0.356 | 5.41 | 0.000 | Supported |
| Firm Size (FS) | 0.041 | 2.11 | 0.036 | Significant |
| Leverage (LEV) | -0.052 | -1.72 | 0.087 | Not Significant |

Corporate Governance → Investor Trust (H1)

Corporate Governance has a positive and significant effect on Investor Trust ($\beta = 0.312$, $p < 0.001$). This indicates that stronger governance mechanisms increase investor confidence. Effective oversight, board independence, and accountability structures reduce agency conflicts and enhance the credibility of financial reporting. Thus, H1 is supported.

Earnings Management → Investor Trust (H2)

Earnings Management shows a negative and significant effect on Investor Trust ($\beta = -0.287$, $p < 0.001$). This suggests that higher levels of discretionary accruals reduce investor confidence. Manipulative reporting practices undermine financial statement credibility, increasing perceived risk. Therefore, H2 is supported.

Financial Transparency → Investor Trust (H3)

Financial Transparency has the strongest positive effect on Investor Trust ($\beta = 0.356$, $p < 0.001$). This finding implies that clear, complete, and timely disclosure significantly enhances investor confidence. Transparency reduces information asymmetry and improves perceived reliability. Thus, H3 is supported.

Control Variables

Firm Size has a significantly positive effect, suggesting larger firms tend to enjoy higher investor trust, likely due to stability and reputation. Leverage is not statistically significant at the 5% level.

4.8. Coefficient of Determination

The Adjusted R² value of 0.621 indicates that 62.1% of the variation in Investor Trust is explained by Corporate Governance, Earnings Management, Financial Transparency, and control variables. The remaining 37.9% is explained by other factors not included in the model.

4.9. Discussion

This study examines the role of corporate governance, earnings management, and financial transparency in shaping investor trust among publicly listed firms. The empirical findings reveal that all three main independent variables significantly influence investor trust, with corporate governance and financial transparency exerting positive effects, while earnings management demonstrates a negative impact. The overall model explains a substantial proportion of the variance in investor trust (Adjusted R² = 0.621), indicating that governance and reporting quality mechanisms are critical determinants of investor confidence in capital markets.

Corporate Governance and Investor Trust

The results indicate that corporate governance has a positive and statistically significant effect on investor trust ($\beta = 0.312$, $p < 0.001$). This finding supports the hypothesis that stronger governance structures enhance investor confidence. Theoretically, this result aligns with Agency Theory, which posits that corporate governance mechanisms function to mitigate conflicts of interest between managers (agents) and shareholders (principals). Effective governance structures—such as independent boards, audit committees, and oversight mechanisms—reduce managerial opportunism and enhance accountability.

From a practical perspective, investors perceive well-governed firms as more reliable and less risky. Strong governance signals that financial reporting processes are monitored effectively and that internal controls reduce the likelihood of manipulation or fraud. In emerging markets, where institutional frameworks may be evolving, governance quality becomes even more critical in reassuring investors about financial integrity. The positive association found in this study reinforces prior evidence that governance mechanisms reduce information asymmetry and enhance credibility in financial disclosures.

Furthermore, governance structures may contribute indirectly to investor trust by strengthening internal monitoring processes that improve reporting quality. Firms with robust governance systems are more likely to comply with regulatory standards, disclose relevant information, and maintain ethical financial practices. This creates a perception of stability and transparency that encourages investor participation and long-term engagement.

Earnings Management and Investor Trust

The findings also show that earnings management has a negative and significant effect on investor trust ($\beta = -0.287$, $p < 0.001$). This result confirms that manipulative financial reporting practices undermine investor confidence. When managers engage in discretionary accrual manipulation to alter reported earnings, the credibility of financial statements is compromised. Investors rely heavily on accounting information to assess firm performance, predict future cash flows, and evaluate risk. Therefore, distorted financial information increases uncertainty and reduces trust.

This outcome supports the premise of both Agency Theory and Information Asymmetry Theory. Managers may engage in earnings manipulation to achieve short-term targets, meet market expectations, or secure performance-based incentives. However, such practices increase perceived risk once detected or suspected. Investors interpret earnings manipulation as a signal of opportunistic behavior, which reduces confidence in management integrity and financial transparency.

The negative relationship observed suggests that even moderate levels of earnings management can significantly affect investor perception. In capital markets characterized by increasing digital access to financial information and enhanced analytical tools, investors are more capable of detecting inconsistencies in financial reports. Consequently, the tolerance for earnings manipulation is decreasing. Firms that engage in aggressive accounting practices risk damaging their reputation, which can lead to a higher cost of capital and reduced market valuation.

This finding underscores the importance of minimizing discretionary accrual practices and maintaining high reporting quality. It also highlights the need for stronger regulatory oversight and effective audit mechanisms to ensure that reported earnings accurately reflect underlying economic performance.

Financial Transparency and Investor Trust

Among the independent variables, financial transparency demonstrates the strongest positive effect on investor trust ($\beta = 0.356$, $p < 0.001$). This suggests that transparent disclosure practices play a dominant role in shaping investor confidence. Transparency reduces information asymmetry by providing clear, comprehensive, and timely financial information that enables investors to evaluate firm performance more accurately.

This finding is consistent with Signaling Theory, which posits that firms send positive signals to the market through voluntary disclosures and transparent reporting. Transparent firms communicate openness and accountability, which reassures investors that management has nothing to conceal. This perception significantly enhances trust and reduces perceived investment risk.

Financial transparency also improves comparability across firms, allowing investors to benchmark performance more effectively. When firms disclose detailed notes, governance information, and forward-looking statements, investors can make more informed decisions. In contrast, opaque reporting increases ambiguity and speculative behavior, which can lead to volatility and reduced confidence.

The strong coefficient for transparency suggests that investors prioritize clarity and completeness of information even more than structural governance mechanisms. While governance ensures oversight, transparency directly affects how investors interpret financial data. This indicates that governance mechanisms must be complemented by high-quality disclosure practices to maximize investor trust.

The Combined Influence of Governance, Earnings Management, and Transparency

The overall regression model indicates that 62.1% of the variation in investor trust is explained by corporate governance, earnings management, financial transparency, and control variables. This relatively high explanatory power highlights the substantial role of financial reporting integrity in shaping market perceptions.

The findings suggest that governance, earnings management, and transparency operate interactively within a broader reporting ecosystem. Strong corporate governance reduces the likelihood of earnings manipulation and enhances transparency, which collectively strengthens investor trust. Conversely, weak governance may allow opportunistic behavior that undermines reporting credibility.

The results also imply that financial transparency may function as a visible outcome of effective governance. While governance structures may not always be directly observable to investors, transparency in disclosures provides tangible evidence of managerial accountability. Therefore, governance and transparency should not be viewed as isolated mechanisms but as complementary components of a trust-building framework.

Implications for Firms and Regulators

The findings offer important implications for corporate managers, regulators, and investors. For managers, the results emphasize the need to strengthen governance structures and prioritize transparent disclosure practices. Firms should ensure board independence, effective audit committees, and compliance with disclosure standards to enhance investor confidence.

For regulators, the negative impact of earnings management suggests that stricter enforcement of accounting standards and improved oversight mechanisms are essential. Regulatory policies that promote transparency and penalize manipulative reporting practices can significantly improve overall market trust.

For investors, the findings highlight the importance of evaluating governance quality and transparency levels when making investment decisions. Monitoring discretionary accrual indicators may also serve as a useful tool for assessing potential reporting risk.

5. Conclusion

This study concludes that corporate governance, earnings management, and financial transparency play crucial roles in shaping investor trust in publicly listed firms. The empirical findings demonstrate that strong corporate governance mechanisms significantly enhance investor confidence by reducing agency conflicts and improving oversight of financial reporting. Financial transparency emerges as the most influential factor, indicating that clear, comprehensive, and timely disclosure is essential in reducing information asymmetry and strengthening market confidence. Conversely, earnings management negatively affects investor trust, as manipulative reporting practices undermine the credibility and reliability of financial statements. Together, these variables explain a substantial proportion of the variation in investor trust, highlighting that accountability, integrity, and openness are fundamental pillars in sustaining investor confidence and long-term market stability. Therefore, firms seeking to build and maintain investor trust must prioritize governance quality, minimize opportunistic earnings practices, and enhance financial transparency in their reporting processes.

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