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The Impact of IFRS Adoption Policy on Earnings Management: Empirical Evidence from Listed Firms in Vietnam

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ABSTRACT: This study aims to assess the impact of adopting International Financial Reporting Standards (IFRS) on earnings management (EM) behavior among Vietnamese firms. Utilizing a dataset comprising 10,207 firm-year observations from listed companies during the 2016–2024 period, the study employs various quantitative methods, including Difference-in-Differences (DiD) regression, Random Effects (RE) panel regression, and Propensity Score Matching (PSM) to address potential sample selection bias. The empirical findings indicate that IFRS adoption has a statistically significant positive impact on EM behavior. This result suggests that in a transitional institutional environment, IFRS may not yet be effective in curbing EM practices and may even create opportunities for firms to exploit gaps in accounting transitions for earnings manipulation in line with managerial objectives. Notably, when examining the moderating role of audit quality, the study finds that the effect of IFRS on EM significantly depends on the quality of auditing. For firms audited by Big Four firms, the IFRS-induced increase in EM is statistically insignificant. Conversely, among firms audited by non-Big Four auditors, IFRS adoption significantly increases the level of EM. The findings contribute to the academic literature on IFRS and EM and offer practical policy implications for regulators in promoting IFRS adoption in Vietnam.

1. Introduction

In the context of deepening economic globalization and financial integration, the adoption of International Financial Reporting Standards (IFRS) has become an inevitable trend across many countries, aiming to enhance the quality, transparency, and comparability of financial information. IFRS is expected to serve as a foundation for improving investor confidence, facilitating international capital flows, and enhancing the efficiency of financial markets [1]. However, the actual impact of IFRS on corporate accounting practices particularly on earnings management (EM) behavior remains

subject to debate, especially in emerging economies where institutional frameworks are still underdeveloped [2].

Earnings management is commonly understood as the use of accounting discretion by managers to manipulate reported earnings for specific objectives, such as meeting earnings targets, avoiding debt covenant violations, minimizing tax obligations, or influencing stock prices [3]. IFRS, with its emphasis on fair value measurement and stricter recognition and disclosure requirements, is believed to have the potential to constrain EM practices. However, empirical evidence worldwide has yielded mixed results. While some studies suggest that IFRS adoption improves the quality of financial reporting [4], [5] others argue that IFRS does not significantly reduce EM behavior [6].

In Vietnam, the IFRS adoption policy marks a significant milestone in the country's accounting reform process. Specifically, Decision No. 345/QĐ-BTC, issued by the Ministry of Finance on March 16, 2020, outlines a roadmap for implementing IFRS in two phases: a preparatory stage from 2020 to 2021, a voluntary application phase starting in 2022 for eligible firms, and a mandatory adoption phase from 2025 onward for large state-owned enterprises, listed firms, and public interest entities. The objective of this initiative is to enhance transparency and improve Vietnamese firms' access to international capital markets, aligning with international practices and the goal of developing a sustainable financial market. Nonetheless, in a context where auditing practices, legal enforcement, and corporate governance awareness remain limited, a critical question arises: Does the adoption of IFRS genuinely reduce EM behavior among listed firms in Vietnam? This is a pressing issue, especially as Vietnam transitions from an accounting system designed primarily for state administrative purposes to an investor-oriented system that demands financial information to reflect more faithfully and fairly the underlying economic reality of enterprises.

The urgency of this study is further underscored by the practical observation that, despite the issuance of Decision 345/QĐ-BTC in 2020, empirical research evaluating the effectiveness of this policy remains scarce. Most existing Vietnamese studies have been limited to theoretical discussions and assessments of the challenges and opportunities associated with IFRS adoption (Phan & Mascitelli, 2014; Tran et al., 2019). There is a lack of quantitative research that investigates the concrete impact of IFRS on actual accounting behavior, particularly EM, in the post-policy period. Against this backdrop, the present study is conducted with the objective of analyzing and evaluating the impact of IFRS adoption on EM among Vietnamese listed companies, using empirical data from the 2016–2024 period. Specifically, the study employs a difference-in-differences (DiD) model in conjunction with propensity score matching (PSM) to control for sample selection bias and isolate the true effect of the IFRS policy on EM behavior. EM is measured using accrual-based metrics derived from various established models, including those by *[7]*, [8], [9], [10].

This research is expected to generate findings of both theoretical and practical significance. Theoretically, it contributes to the literature on financial reporting quality by elucidating the relationship between accounting standards and accounting behavior. The results will provide a critical test of IFRS's effectiveness as a mechanism to enhance the reliability of financial reports in

transitional economies. Practically, the findings will serve as a vital basis for the Ministry of Finance, the State Securities Commission, and other regulatory bodies to evaluate the initial effectiveness of Decision 345 and identify obstacles that need to be addressed in the process of implementing full IFRS adoption from 2025 onward. Moreover, the study offers a methodological contribution by integrating two advanced econometric techniques DiD and PSM to address issues of selection bias and endogeneity, thereby enhancing the credibility of its conclusions. The research also conducts in-depth analyses across firm characteristics (e.g., size, profitability, financial structure), industry sectors, and time periods to assess the heterogeneous effects of IFRS adoption.

2. Theoretical Framework, Literature Review, and Hypothesis Development

2.1. Theoretical Framework

To explain the impact of IFRS adoption policies on earnings management (EM), researchers have drawn upon multiple foundational theories. These theories offer frameworks for understanding the mechanisms through which IFRS influences corporate accounting decisions, particularly in the context of EM.

Agency Theory, as proposed by [11], posits a conflict of interest between managers (agents) and shareholders (principals), arising from information asymmetry and differing objectives. In such settings, managers may have incentives to manipulate earnings to maximize personal benefits, even at the cost of distorting financial information. The adoption of IFRS, which emphasizes greater transparency in financial recognition and disclosure, can serve as a constraint on EM behavior [1]. Thus, assessing whether IFRS helps narrow the agency gap is the central focus of this study. Financial reports are considered tools to mitigate agency conflicts and constrain managerial opportunism. IFRS adoption is expected to reduce opportunistic EM by enhancing the transparency and comparability of financial statements. Prior studies [12], [13] have relied on this theory to explore the effects of IFRS on EM, with the expectation that strong corporate governance mechanisms will reinforce the intended outcomes of IFRS.

Information Asymmetry Theory explains that discrepancies in information between managers and other stakeholders (such as investors) can lead to EM practices. IFRS aims to improve the quality of accounting information through simplicity and comparability, thereby reducing information asymmetry. [12] argue that IFRS "reduces information asymmetry, thereby enhancing both the quality of financial reporting and the efficiency of capital investment." As financial information becomes more transparent, managers are less able to obscure the firm's actual financial position, allowing shareholders to exercise better oversight.

Institutional Theory emphasizes the role of institutional environments in shaping organizational behavior [14]. According to [15], organizations tend to conform to social norms or regulatory policies (isomorphism) to gain legitimacy. Vietnam's issuance of Decision No. 345/QĐ-BTC in 2020, establishing the IFRS adoption roadmap, represents a form of coercive isomorphism. This theory helps explain that the effectiveness of IFRS adoption is not solely dependent on the standards

themselves but also on institutional, cultural, and enforcement contexts. [16] conducted an extensive study on how cultural factors (e.g., trust levels, power distance, uncertainty avoidance) and legal enforcement quality affect EM post-IFRS adoption. Their findings suggest that IFRS may increase EM in countries with low trust or certain cultural attributes. Similarly, evidence shows that IFRS adoption is associated with increased EM in cultures characterized by high uncertainty avoidance, short-term orientation, and high indulgence. Studies by [17] and [18] also find that the effectiveness of IFRS in constraining EM varies across countries with different enforcement strengths. [19] even conclude that IFRS adoption is ineffective in limiting EM in emerging markets, partly due to insufficient training and knowledge. In summary, the impact of IFRS on EM is complex and influenced not only by the standards themselves but also by managerial incentives and the broader institutional environment. The integration of these theories enables a comprehensive and multidimensional analysis of the subject.

2.2. *Literature Review and Hypothesis Development*

2.2.1. *Literature on IFRS Policy and Earnings Management*

IFRS has been widely adopted globally with the goal of enhancing financial reporting quality, ensuring transparency, and improving comparability across firms and jurisdictions [12], [13], [20]. One of the most extensively researched areas concerns the impact of IFRS adoption on EM, a practice whereby management intentionally distorts financial information to achieve specific objectives [21]. However, empirical findings regarding this relationship are mixed, presenting a complex and multifaceted picture. The literature can be categorized into three main streams based on IFRS's impact on EM: reduction, increase, or no significant effect.

IFRS Reduces EM: Transparency and Market Discipline

A central argument in studies supporting the positive effects of IFRS is that the standards enhance transparency, reduce information asymmetry, and improve the comparability of financial reports, thereby limiting opportunities for earnings manipulation [12], [13], [22]. According to [23], IFRS may serve as a governance tool that reduces agency conflicts through improved market oversight. By establishing high-quality accounting principles and requiring more detailed disclosures, IFRS compels firms to provide clearer and more reliable financial information, making EM activities easier to detect and therefore less attractive for opportunistic managers. This effect is particularly pronounced in countries with well-developed institutions, strong auditing mechanisms, and the presence of Big Four audit firms that enhance the disciplinary role of IFRS [24].

IFRS Increases EM: Flexibility and Institutional Weaknesses

Conversely, another stream of literature contends that IFRS does not always produce the desired outcomes, especially in environments with weak institutional frameworks. As a principles-based set of standards, IFRS grants managers considerable discretion in choosing accounting methods, potentially creating loopholes for EM [13], [25], [22]. In emerging markets or countries with low investor protection, high power distance, or high uncertainty avoidance, the flexibility of IFRS may be exploited. [26] emphasize the significant role of cultural factors in shaping post-IFRS EM behavior.

Such environments increase the likelihood that managers will manipulate financial data, anticipating weak enforcement and oversight.

Furthermore, some studies suggest that IFRS may alter the structure of EM behavior, prompting shifts between accrual-based EM and real earnings management (REM), a phenomenon known as the "substitution effect." In these cases, managers adapt by choosing forms of EM that are less detectable under stricter regulations [25], [27].

IFRS Has No Significant Effect: Neutralizing Factors and Methodological Constraints

In addition to the opposing perspectives, some studies report no clear evidence that IFRS significantly affects EM [28], [18]. These findings are typically attributed to two main factors: the neutralizing effect of opposing influences and methodological limitations. First, in many countries, the combined presence of both enabling and constraining factors may offset each other, rendering the net effect of IFRS adoption negligible. For instance, even if IFRS increases transparency, weak enforcement or persistent market pressures may still sustain EM incentives. Second, measuring EM is inherently challenging. The choice of estimation models, study period, and measurement variables can significantly affect the results. Current models also struggle to distinguish between legitimate accounting practices and manipulative behavior [27].

From these three perspectives, it is evident that the impact of IFRS on EM is not universal but highly context-dependent shaped by institutional environments, cultural factors, and enforcement mechanisms. IFRS can only achieve its goal of improving financial reporting quality if implemented within a robust accounting ecosystem supported by independent auditing, effective legal systems, and strong ethical standards [17]. In emerging markets, IFRS adoption must be accompanied by institutional reforms, enhanced audit quality, and specialized training for accounting professionals. Absent such conditions, the adoption of IFRS may even backfire, offering additional leeway for opportunistic managerial behavior [20].

2.2.2. Hypothesis Development

Based on agency theory, IFRS is expected to mitigate conflicts of interest between managers and shareholders by limiting the ability to manipulate accounting figures [12]. Standardized financial statements enhance shareholder oversight, reduce information asymmetry, and improve the overall quality of financial reporting [29]. Earnings that are free from manipulation are considered indicative of high-quality accounting information; therefore, IFRS adoption may enhance the quality of financial reports and improve capital allocation efficiency [12].

Numerous empirical studies support the notion that IFRS reduces earnings management (EM). For instance, a study of listed companies on the Saudi Arabia and UAE stock exchanges during 2011–2021 revealed a significant negative impact of IFRS on both accrual-based earnings management (AEM) and real earnings management (REM) [12]. Similarly, in Bangladesh, IFRS adoption has been shown to have a significantly negative relationship with REM [13]. These results reinforce the expectation that the adoption and convergence with IFRS can curb EM and enhance information quality [30]. Although a few studies report divergent outcomes due to institutional or cultural

factors, the general trend indicates that IFRS contributes to reducing EM [25], [26], [18]. In light of the above theoretical and empirical insights, the following hypothesis is proposed:

Hypothesis H1: The adoption of IFRS policy under Decision 345 has a negative impact on earnings management practices among listed firms.

The adoption of IFRS under Decision 345 aims to enhance the quality of financial information and reduce EM behavior [12], [20]. However, the effectiveness of IFRS may vary across different firm groups due to institutional differences, regulatory oversight, and market pressures [25], [31], [32], [22]. Firms listed on official exchanges such as HOSE and HNX are subject to more rigorous scrutiny from regulators, investors, and financial analysts [33], [17], [34], [35]. The presence of Big 4 auditors and the pressure to maintain market credibility further reinforce financial reporting discipline [29], [28]. A study in Bangladesh demonstrated a significant negative relationship between IFRS adoption and REM, highlighting that strong corporate governance mechanisms can help realize the objectives of IFRS [13]. Similarly, in Vietnam, listed firms that adhere to corporate social responsibility to attract investment tend to engage less in EM, thereby promoting transparency [35].

Conversely, unlisted firms such as those trading on UPCoM or privately held companies often face lower levels of public oversight and capital market pressures [28]. In emerging markets, underdeveloped institutional environments and the inherent flexibility of IFRS can enable greater EM activities [25]. This implies that, in the absence of strong external monitoring and enforcement mechanisms, the benefits of IFRS in curbing EM may be weakened or even counterproductive [32], [26]. Based on these arguments, the following hypothesis is formulated:

Hypothesis H2: The impact of IFRS policy under Decision 345 on earnings management is more pronounced among firms listed on HOSE and HNX than among unlisted firms (e.g., UPCoM).

Audit quality, particularly from Big 4 firms, plays a crucial role in monitoring and constraining managerial earnings manipulation [12], [24]. Big 4 auditors typically possess superior resources, expertise, and reputational capital, placing greater pressure on management to ensure compliance with standards and accurate representation of financial performance [12]. Numerous studies support the positive role of Big 4 auditors in reducing EM. For instance, several studies find that Big 4 auditors significantly contribute to EM mitigation [12]. Notably, [36] found a significant negative relationship between the interaction term Big4*IFRS and EM, implying that Big 4 auditors enhance the EM-reducing effect of IFRS. Similarly, [32] hypothesized that "mandatory IFRS adoption is more likely to reduce earnings management when firms are audited by Big 4 auditors."

However, some studies report inconsistent results. For example, [12] and [37] observed insignificant or ambiguous moderating effects of Big 4 auditors in the IFRS–EM relationship. [28] even argued that among IFRS-adopting firms, audit quality (Big 4 vs. non-Big 4) does not significantly reduce the level of EM. Nonetheless, the hypothesis regarding the amplifying effect of Big 4 audit quality remains a key issue, particularly in emerging markets like Vietnam. Therefore, we propose:

Hypothesis H3: The impact of IFRS policy under Decision 345 on earnings management is more significant among firms audited by Big 4 auditors.

3. Research Model and Methodology

3.1. Research Design

This study adopts a **quantitative design** using a **quasi-experimental approach**, specifically the **Difference-in-Differences (DiD)** model, to assess the impact of IFRS adoption policy on firms' earnings management behavior in Vietnam. The context of the research is Decision No. 345/QĐ-BTC dated March 16, 2020, which outlines a clear roadmap for IFRS adoption 2020–2021 for preparation, 2022–2025 for voluntary adoption, and post-2025 for mandatory application.

In this study, firms listed on HOSE and HNX (collectively referred to as the "treatment group") are expected to be more affected by IFRS policy due to their greater transparency, larger scale, and higher levels of public scrutiny. Meanwhile, firms listed on UPCoM are used as the "control group" as they are less likely to adopt or be affected by IFRS in the early stages [38]. This grouping allows for a rigorous test of the IFRS policy's effect on changes in earnings management behavior.

3.2. Research Model

This study employs a Difference-in-Differences (DiD) model to assess the impact of IFRS adoption policy on earnings management (EM). The model is constructed as follows:

$$EM_{it} = \beta_0 + \beta_1 treated_{it} + \beta_2 post_{it} + \beta_3 post\_treated_{it} + \beta_4 Control_{it} + \varepsilon_{it} \quad (1)$$

Where:

EM_{it}: represents the level of earnings management, measured using four models: the original model of [7], the Modified Jones model, an enhancement by [8], the model of [9], and the model by [10].

$$\frac{TA_{it}}{A_{it-1}} = a_1 \frac{1}{A_{it-1}} + a_2 \frac{\Delta REV_{it}}{A_{it-1}} + a_3 \frac{PPE_{it}}{A_{it-1}} + \varepsilon \quad (2.1)$$

$$\frac{TAC_{it}}{A_{it-1}} = a_1 \frac{1}{A_{it-1}} + a_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} + a_3 \frac{PPE_{it}}{A_{it-1}} + \varepsilon \quad (2.2)$$

$$\frac{TAC_{it}}{A_{it-1}} = \alpha_1 \frac{1}{A_{it-1}} + \alpha_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} + \alpha_3 \frac{PPE_{it}}{A_{it-1}} + + \alpha_4 ROA_{it-1} + \varepsilon \quad (2.3)$$

$$\frac{TAC_{it}}{A_{it-1}} = \alpha_1 \frac{1}{A_{it-1}} + \alpha_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} + \alpha_3 \frac{PPE_{it}}{A_{it-1}} + + \alpha_4 \frac{\Delta CFO_{it}}{A_{it-1}} + \varepsilon \quad (2.4)$$

In this model, TAC_{it} is total accruals, computed as: $TAC_{it} = \Delta CA_{it} - \Delta Cash_{it} - \Delta CL_{it} - \Delta DCL_{it} - DEP_{it}$. ΔCA_{it}: Change in current assets, $\Delta Cash_{it}$: Change in cash and cash equivalents, ΔCL_{it}: Change in current liabilities, ΔDCL_{it}: Change in short-term debt, DEP_{it}: Depreciation expenses, ΔREV_{it}: Change in revenue, ΔREC_{it}: Change in net receivables, PPE_{it}: Gross property, plant, and equipment, A_{it-1}: Total assets at the beginning of year t, ROA_{it-1}: Return on assets at year $t-1$

Equations (2.1), (2.2), (2.3), and (2.4) are estimated cross-sectionally for each industry group and year, with a minimum of 10 firms per group per year. The absolute value of the residuals from these regressions is used to proxy the extent of EM.

treated$_{it}$ is a binary variable equal to 1 for listed firms (on HOSE or HNX), and 0 for firms listed on UPCOM.

post$_{it}$ equals 1 for years ≥ 2020 (post-Decision 345 issuance), and 0 otherwise.

post_treated$_{it}$ is an interaction term between *post* and *treated*, capturing the treatment effect of IFRS policy on listed firms (HOSE and HNX).

Control$_{it}$ includes firm size (SIZE: logarithm of total assets), financial leverage (LEV: total debt to total assets), and profitability (ROA: net income/total assets).

3.3. Data

The study utilizes a panel dataset comprising 10,207 firm-year observations derived from audited financial statements of non-financial firms listed on the three major stock exchanges in Vietnam (HOSE, HNX, and UPCOM) during the period 2016–2024. The data are obtained from reliable sources such as FiinPro and Vietstock, ensuring completeness and consistency for analyzing the impact of IFRS adoption on earnings management in the context of emerging markets.

3.4. Estimation Methods

To comprehensively evaluate the impact of IFRS adoption on EM behavior among listed firms in Vietnam, the study employs a combination of quantitative methods, thereby enhancing the robustness and generalizability of the findings. Initially, a panel data regression model is estimated to use random effects (xtreg re), with standard errors clustered at the firm level (vce (cluster firmid)) to account for heteroskedasticity and intra-group correlation.

Next, the DiD approach (xtdidregress) is used to estimate the causal effect of the IFRS policy by comparing the pre- and post-policy differences between the treated and control groups, while controlling for time-invariant unobserved heterogeneity.

Additionally, to address potential sample selection bias and improve comparability between treated and control groups, Propensity Score Matching (PSM) is applied. The *pstest* results indicate a good balance between the matched groups, affirming the high quality of the matching process. This integrated approach strengthens the internal validity and credibility of the empirical findings, providing a sound basis for deriving relevant policy implications.

4. Research Findings

Table 1 presents descriptive statistics, indicating that the earnings management indicators measured by the absolute values (EM_J91, EM_D95, EM_K05, EM_K99) have mean values ranging from 0.0726 to 0.0969. These figures suggest a relatively low level of earnings adjustment within the sample. The variables *treated* and *post* have mean values of 0.4638 and 0.5919, respectively, implying that approximately 46% of firms were subject to the IFRS-related policy intervention, and about 59% of the observations fall within the post-intervention period following the issuance of Decision No. 345/QĐ-BTC. The interaction variable *post_treated* has a mean value of 0.2666, consistent with the proportion of firms exposed to the policy during the post-adoption period.

The control variables, including LEV, ROA, and SIZE, exhibit reasonable variation. The average leverage (LEV) is 0.5289, while the return on assets (ROA) is relatively low at 0.0427, reflecting the conservative financial characteristics of Vietnamese enterprises.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
EM_J91	10,207	0.09598	0.10422	0.00108	0.79176
EM_D95	10,207	0.09694	0.10498	0.0011	0.81184
EM_K05	10,190	0.0964	0.1041	0.00117	0.81238
EM_K99	10,207	0.07262	0.0728	0.00105	0.48846
treated	10,207	0.4638	0.49871	0	1
post	10,207	0.59195	0.4915	0	1
post_treated	10,207	0.26658	0.44219	0	1
LEV	10,207	0.52898	1.05031	0.00021	65.2931
ROA	10,207	0.04269	0.09696	-1.67619	1.03446
SIZE	10,207	27.0261	1.59286	16.7215	33.0449

Table 2 presents the correlation matrix results, showing that the earnings management measures (EM_J91, EM_D95, EM_K05) are highly correlated with one another (correlation coefficients > 0.91 and statistically significant), indicating strong consistency among these indicators. However, EM_K99 exhibits lower correlations with the other measures, suggesting differences in its measurement characteristics.

The variable *post_treated* is positively correlated with the earnings management indicators, particularly with EM_D95 and EM_K05, implying that the implementation of IFRS may be associated with higher levels of earnings management among affected firms. The variable *ROA* shows a statistically significant negative correlation with all EM measures, suggesting that more profitable firms are less likely to engage in earnings management. Similarly, *SIZE* is negatively associated with EM, implying that larger firms tend to be more transparent. The generally low correlations among the independent variables help mitigate concerns of multicollinearity in the subsequent regression analyses.

Table 2: Correlation Matrix

	EM_J91	EM_D95	EM_K05	EM_K99	treated	post	post_treated	LEV	ROA	SIZE
EM_J91	1									
EM_D95	0.9221*	1								
EM_K05	0.9128*	0.9857*	1							
EM_K99	0.5535*	0.5766*	0.5691*	1						
treated	0.0087	0.0159	0.0126	-0.0137	1					
post	0.0182	0.0117	0.007	0.0123	-0.0325*	1				
post_treated	0.0219*	0.0263*	0.0208*	0.0057	0.6482*	0.5006*	1			
LEV	0.0643*	0.0690*	0.0586*	0.1029*	-0.0600*	0.0330*	-0.0435*	1		
ROA	-0.1060*	-0.1174*	-0.1261*	-0.1405*	0.1445*	-0.0627*	0.0562*	0.1416*	1	
SIZE	-0.1180*	-0.1078*	-0.1109*	-0.1133*	0.2689*	0.0374*	0.2166*	0.0471*	0.1063*	1
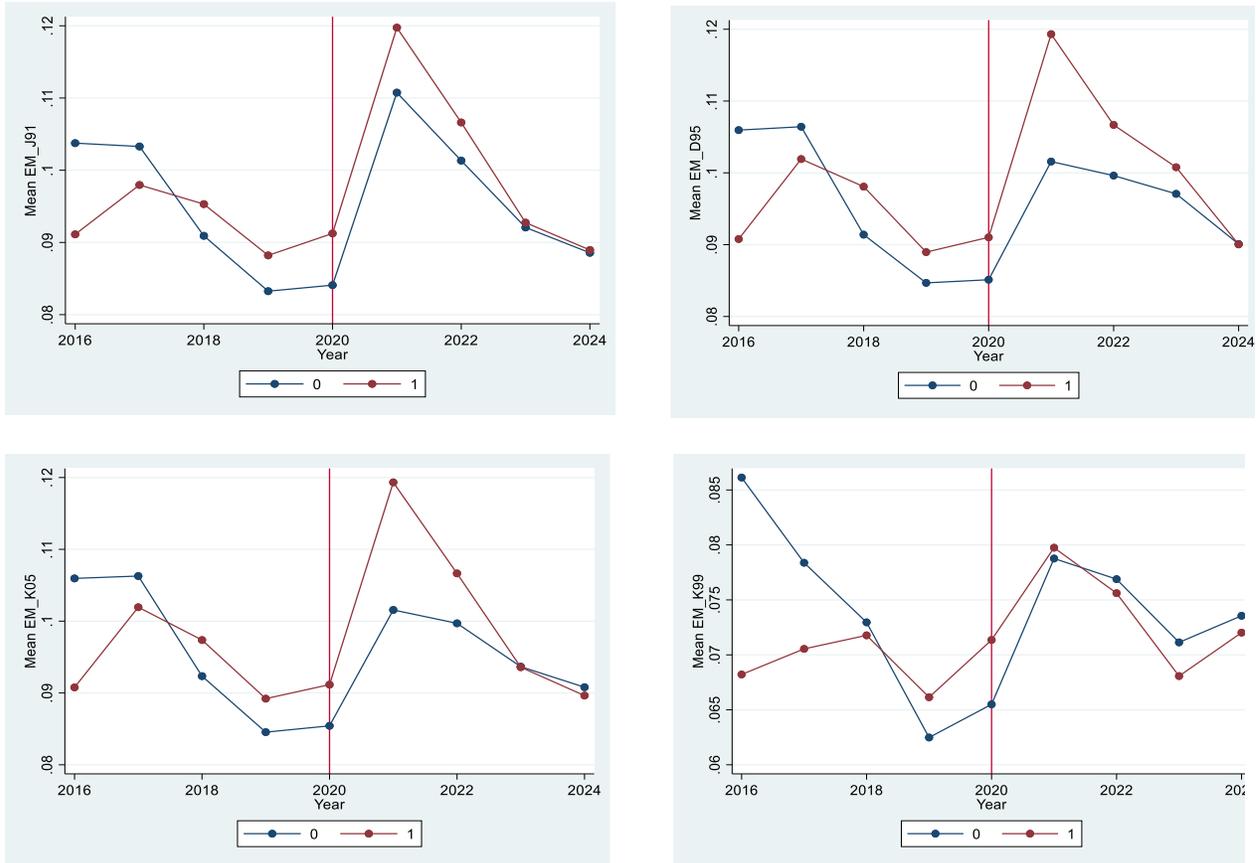
 Figure 1: Trends in Earnings Management Before and After the Implementation of Decision 345

Figure 1 illustrates the average trends of earnings management (EM) indicators based on four models (EM_J91, EM_D95, EM_K05, EM_K99) over the period 2016–2024, categorized by listed firms (1) and unlisted firms (0) affected by the IFRS policy. The results reveal a clear shift after 2020, when the IFRS adoption roadmap was officially issued. Specifically, firms adopting IFRS exhibit a notable increase in earnings management during the post-implementation period (2021–2022), as evidenced by higher average EM levels compared to the control group.

Notably, the EM_D95 and EM_K05 models show a pronounced rise in earnings management behavior immediately following the issuance of the IFRS roadmap. However, this gap appears to narrow starting in 2023, suggesting that IFRS may initially incentivize earnings adjustment behavior as firms adapt to the new standards, but such effects may diminish over time. These findings are consistent with prior studies on the short-term effects of IFRS adoption in emerging markets.

Table 3: Baseline Regression Results

	EM_J91	EM_D95	EM_K05	EM_K99
treated	0.00634*	0.00640*	0.00661*	0.000634
	[1.73]	[1.68]	[1.76]	[0.22]
post	-0.000513	-0.00321	-0.0038	-0.00213
	[-0.18]	[-1.13]	[-1.34]	[-1.03]
post_treated	0.00755*	0.00964**	0.00867**	0.00573*
	[1.82]	[2.31]	[2.07]	[1.91]
LEV	0.00478**	0.00510**	0.00413	0.00539***
	[2.49]	[2.52]	[1.21]	[3.11]
ROA	-0.0945***	-0.109***	-0.121***	-0.0817***
	[-4.48]	[-5.07]	[-5.50]	[-4.22]
SIZE	-0.00733***	-0.00661***	-0.00703***	-0.00436***
	[-8.05]	[-6.98]	[-7.57]	[-5.80]
_cons	0.291***	0.275***	0.287***	0.191***
	[11.99]	[10.89]	[11.61]	[9.63]
N	10207	10207	10207	10207

*t statistics in brackets; * p<0.1, ** p<0.05, *** p<0.01*

The baseline regression results, as presented in Table 3, indicate that the impact of IFRS adoption policy on earnings management (EM) is statistically significant across most estimation models. The interaction term post_treated, which captures the effect of IFRS adoption on listed firms, is positive and significant at the 10% level or higher in all four models: EM_J91 (0.00755), EM_D95 (0.00964*), EM_K05 (0.00867**), and EM_K99 (0.00573*). This suggests that listed firms tend to increase earnings management practices following the introduction of the policy, which contradicts Hypothesis H1: The implementation of IFRS under Decision 345 reduces earnings management among listed firms. The control variables yield results that are consistent with theoretical expectations. The variable *ROA* exhibits a negative and highly significant coefficient across all models (e.g., ranging from -0.0945 to -0.121), indicating that more profitable firms are less likely to engage in earnings management supporting the hypothesis that earnings management is often motivated by the desire to mask poor performance. Similarly, *firm size (SIZE)* is negatively and significantly associated with EM, implying that larger firms, which are typically more transparent and subject to stricter scrutiny, are less inclined to manipulate earnings. Conversely, *financial leverage (LEV)* shows a positive and statistically significant coefficient in three of the models, suggesting that more highly leveraged firms tend to engage more in earnings management, potentially to meet covenant debt requirements.

These findings are consistent with prior research in emerging markets such as Vietnam, where IFRS adoption is approached as an institutional pressure without corresponding improvements in enforcement and oversight mechanisms. Ahmed et al. (2013) noted that IFRS adoption does not necessarily lead to higher reporting quality in weak institutional environments. Accordingly, the baseline regression results reinforce the argument that IFRS implementation in Vietnam—absent a

supportive ecosystem of enforcement, auditing, and regulatory sanctions—may facilitate short-term earnings management behaviors. This serves as important empirical evidence highlighting the potential downside of implementing IFRS without comprehensive institutional reform.

Table 4: Difference-in-Differences Regression Results

	EM_J91	EM_D95	EM_K05	EM_K99
ATET				
post_treated	0.00647	0.00838*	0.00788*	0.00463
	[1.51]	[1.95]	[1.83]	[1.50]
Controls				
LEV	0.00593	0.00432	0.00413	0.00129
	[0.62]	[0.45]	[0.41]	[0.19]
ROA	-0.0803***	-0.0931***	-0.101***	-0.0671***
	[-2.87]	[-3.27]	[-3.53]	[-2.85]
SIZE	0.00676	0.00658	0.00442	0.00315
	[1.60]	[1.47]	[1.04]	[1.02]
N	10207	10207	10207	10207

*t statistics in brackets; * p<0.1, ** p<0.05, *** p<0.01*

Table 4 presents the regression results using the xtdidregress method, showing that the impact of IFRS adoption policy on earnings management (EM) is statistically significant in certain cases. The ATET variable (post_treated), representing the causal effect of IFRS policy on listed firms, is positive across all four models, with coefficients of 0.00647 (EM_J91), 0.00838* (EM_D95), 0.00788* (EM_K05), and 0.00463 (EM_K99). The results are statistically significant at the 10% level for EM_D95 and EM_K05, suggesting that IFRS policy potentially increases earnings management activities.

Among the control variables, profitability (ROA) consistently shows a negative and highly significant coefficient at the 1% level in all models, indicating that more profitable firms are less likely to engage in earnings management. In contrast, financial leverage (LEV) and firm size (SIZE) do not exhibit clear relationships, as their coefficients are not statistically significant.

Overall, these findings support Hypothesis H2: "The impact of IFRS policy under Decision 345 on earnings management is more pronounced for firms listed on HOSE and HNX compared to unlisted firms (UPCoM)". This aligns with the arguments of [5], [16], [25], [26] regarding the potential downsides of early-stage accounting standard convergence in emerging markets.

Table 5 reports the regression results by implementation phase. The interaction term treated#1.phase carries a positive coefficient and is statistically significant at the 5% level across all models (EM_D95, EM_K05, EM_K99), except for EM_J91 where significance is at the 10% level. This implies that IFRS policy, in its early implementation phase, tends to increase earnings management behavior. The estimated coefficients range from 0.00804 to 0.0136, indicating a consistent impact across different EM measures.

In contrast, the interaction term treated#2.phase is not statistically significant in any model, suggesting that the policy's effect diminishes over time, possibly reflecting firms' gradual adaptation to the new standards environment.

Notably, control variables such as ROA and SIZE maintain negative and statistically significant coefficients (at the 1% level), confirming that larger and more profitable firms are less likely to engage in earnings management. Conversely, LEV is positively associated with and statistically significant in most models, implying that firms with higher financial leverage are more motivated to manipulate earnings.

In conclusion, the findings suggest that IFRS adoption, especially during its initial phase can create incentives or conditions for earnings management. This is consistent with arguments regarding the unintended consequences of IFRS implementation in accounting environments with underdeveloped institutional frameworks, such as Vietnam [25], [16].

Table 5: Regression Results by Implementation Phase

	EM_J91	EM_D95	EM_K05	EM_K99
treated	0.00627*	0.00640*	0.00660*	0.000622
	[1.71]	[1.68]	[1.75]	[0.22]
1.phase	0.0029	-0.00358	-0.00378	-0.00225
	[0.80]	[-1.04]	[-1.10]	[-0.93]
2.phase	-0.00265	-0.00299	-0.00382	-0.00205
	[-0.86]	[-0.94]	[-1.20]	[-0.87]
treated#1.phase	0.00938*	0.0133**	0.0136**	0.00804**
	[1.68]	[2.43]	[2.47]	[2.15]
treated#2.phase	0.00626	0.00724	0.00544	0.00422
	[1.39]	[1.58]	[1.19]	[1.25]
LEV	0.00483**	0.00509**	0.00411	0.00539***
	[2.52]	[2.51]	[1.21]	[3.11]
ROA	-0.0947***	-0.109***	-0.121***	-0.0819***
	[-4.48]	[-5.09]	[-5.53]	[-4.23]
SIZE	-0.00725***	-0.00656***	-0.00695***	-0.00432***
	[-7.94]	[-6.91]	[-7.47]	[-5.73]
_cons	0.289***	0.273***	0.285***	0.190***
	[11.87]	[10.81]	[11.49]	[9.56]
N	10207	10207	10207	10207

*t statistics in brackets; * p<0.1, ** p<0.05, *** p<0.01*

Table 6 presents regression results showing significant differences in the impact of IFRS adoption on earnings management behavior when firms are categorized by audit quality specifically, those audited by Big 4 versus Non-Big 4 auditors using four earnings management proxies (EM_J91,

EM_K05, EM_K99, EM_D95). The variable *post_treated* captures the effect of IFRS policy implementation.

The results indicate that firms audited by non-big 4 auditors exhibit a statistically significant increase in earnings management following IFRS' adoption. The coefficients on *post_treated* are positive and statistically significant in the following models: EM_J91 (0.00971, $p < 0.05$), EM_K05 (0.0114, $p < 0.05$), EM_K99 (0.00632, $p < 0.1$), and EM_D95 (0.0124, $p < 0.01$). In contrast, among firms audited by Big 4 auditors, *post_treated* coefficients are not statistically significant across all models, suggesting no substantial evidence of increased earnings management post-IFRS adoption in this group.

These findings align with prior studies such as Chen et al. (2010), which argue that IFRS adoption does not automatically reduce earnings management, especially in emerging markets where enforcement and oversight mechanisms may be weak. Firms audited by non-big 4 auditors who often face concerns regarding audit quality and independence may have more latitude to engage in earnings manipulation, even under an IFRS regime.

Conversely, Big 4 auditors, known for their reputation and higher professional standards, may serve as effective external monitors that constrain financial reporting manipulation [36], [32]. Thus, the impact of IFRS may be neutralized by the audit oversight provided by the Big 4 auditors. These results underscore the complementary role of audit quality in achieving IFRS's intended objectives of transparency and faithful representation in developing markets like Vietnam.

Supplementary regression results (Appendix), based on the Propensity Score Matching (PSM) method, further reinforce the significant effect of IFRS adoption on earnings management. Specifically, the absolute mean values of earnings management indicators (EM) differ significantly between the treated group (firms adopting IFRS) and the control group (non-adopters). The estimated Average Treatment Effect on the Treated (ATT) is positive, indicating that firms tend to increase earnings management following IFRS adoption.

PSM addresses sample selection bias and enhances comparability by ensuring covariate balance between the two groups, thereby strengthening the credibility of the IFRS impact estimates. However, the observed positive difference may reflect an incomplete transition or a merely formalistic implementation of IFRS, which could, in turn, increase the incentives for earnings manipulation. This finding highlights the importance of improving IFRS enforcement and enhancing regulatory oversight.

The post-matching balance test (pstest) is a crucial step to evaluate the covariate balance between treated and control groups after applying PSM. The statistics from the *pstest* table show marked improvements in the balance of control variables post-matching, as evidenced by a significant reduction in mean bias between the groups. Specifically, the mean bias of variables such as ROA, SIZE, and LEV fell below 5% after matching, and these differences were no longer statistically significant at conventional levels (1%, 5%, 10%). This suggests successful matching and comparable characteristics between the treated and control groups.

Moreover, t-tests confirm that the differences in the mean values of these covariates are no longer statistically significant after matching, which enhances the internal validity and comparability of the analysis. Therefore, the *pstest* results strengthen the robustness and reliability of the PSM-based model, providing a solid foundation for identifying the causal relationship between IFRS policy and earnings management behavior in this study.

Table 6: Regression Results by Audit Firm Type

	EM_J91		EM_K05		EM_K99		EM_D95	
	Non Big4	*Big4*	*Non Big4*	*Big4*	*Non Big4*	*Big4*	*Non Big4*	*Big4*
treated	0.00701*	-0.00421	0.00692	-0.00295	0.00143	-0.0047	0.00643	-0.00128
	[1.68]	[-0.58]	[1.61]	[-0.39]	[0.45]	[-0.72]	[1.49]	[-0.17]
post	-0.000016	-0.00382	-0.00341	-0.00711	-0.00262	0.00217	-0.0028	-0.00678
	[-0.01]	[-0.53]	[-1.14]	[-0.93]	[-1.18]	[0.43]	[-0.93]	[-0.90]
post_treated	**0.00971****	**0.00626**	**0.0114****	**0.00529**	**0.00632***	**0.0024**	**0.0124*****	**0.00616**
	[2.05]	[0.70]	[2.40]	[0.58]	[1.83]	[0.39]	[2.61]	[0.69]
LEV	0.00452**	0.0587***	0.00359	0.0533***	0.00522***	0.0300***	0.00487**	0.0509***
	[2.27]	[4.09]	[1.10]	[3.51]	[2.92]	[2.60]	[2.34]	[3.35]
ROA	-0.106***	0.048	-0.130***	-0.000488	-0.0978***	0.0754	-0.115***	-0.00808
	[-4.49]	[1.29]	[-5.33]	[-0.01]	[-4.63]	[1.63]	[-4.79]	[-0.17]
SIZE	-0.00724***	-0.00885***	-0.00715***	-0.00796***	-0.00423***	-0.00492***	-0.00642***	-0.00810***
	[-6.10]	[-5.22]	[-5.92]	[-5.01]	[-4.43]	[-2.90]	[-5.21]	[-4.67]
_cons	0.289***	0.310***	0.290***	0.292***	0.189***	0.188***	0.269***	0.297***
	[9.19]	[6.71]	[9.08]	[6.69]	[7.53]	[4.02]	[8.27]	[6.14]
N	8367	1840	8367	1835	8367	1840	8367	1840

*t statistics in brackets; * p<0.1, ** p<0.05, *** p<0.01*

5. Conclusion and Recommendations

This study aims to evaluate the impact of IFRS adoption policy on earnings management (EM) behavior among listed firms in Vietnam. Panel data were collected for the period before and after the IFRS implementation roadmap in Vietnam. Employing the Difference-in-Differences (DiD) method and the xtdidregress regression model with control variables, the study provides reliable estimations of the IFRS policy's effect and incorporates Propensity Score Matching (PSM) for robustness.

The regression results indicate that when EM is measured using four models (EM_J91, EM_D95, EM_K05, and EM_K99), the coefficient of the policy variable (post_treated) is positive and statistically significant in some models. This implies that IFRS adoption does not substantially mitigate EM behavior among Vietnamese listed companies. On the contrary, the flexibility embedded in IFRS may provide firms with opportunities to manipulate earnings. Particularly, when disaggregating the sample by audit firm type, the results show that the effect of IFRS on EM behavior is only significant among firms audited by non-Big4 auditors. In contrast, for those audited by Big4 firms, the impact of IFRS is insignificant. This finding suggests that audit quality serves as an important moderating factor in the relationship between IFRS and EM behavior.

Based on the findings, several policy recommendations are proposed: (i) Enhance supervision and quality control of audit services. Regulators should raise professional standards and strengthen oversight of non-Big4 audit firms to ensure independence and audit quality, thereby better

constraining EM behavior. (ii) Implement IFRS through a well-defined roadmap accompanied by a strong legal framework. Given the high flexibility in IFRS's application of accounting estimates, implementation should be coupled with specific regulatory guidance and reinforced inspection and enforcement mechanisms against fraudulent or inappropriate earnings adjustments. (iii) Improve the capacity of accountants and corporate managers. Effective IFRS adoption requires a sound understanding and faithful application of the standards by accounting and managerial personnel. Comprehensive training programs should be delivered, especially to SMEs. (iv) Promote the role of auditors in the IFRS context. IFRS policies alone do not automatically improve transparency without third-party oversight. Mandating audits by reputable and competent audit firms will contribute to the reliability of financial reporting.

This study contributes to the financial accounting literature in three key aspects: (1) Unlike most prior studies focused on developed or emerging economies such as China, Malaysia, or Brazil, this study provides quantitative evidence from Vietnam a transitional market adopting international accounting standards. It broadens the generalizability of IFRS-EM research findings and emphasizes the moderating role of audit quality (Big4 vs. non-Big4) in the IFRS-EM nexus, a relatively underexplored area in Vietnam. This supports agency theory and information asymmetry hypotheses. (2) The empirical evidence underscores that IFRS adoption in Vietnam must be accompanied by comprehensive reforms in supervision, auditing, and human resource development. These findings offer valuable insights for the Ministry of Finance, the State Securities Commission, and professional organizations such as the Vietnam Association of Certified Public Accountants (VACPA) in designing a more effective and feasible IFRS implementation roadmap. (3) Firms may become more aware of EM risks in the absence of high-quality audit oversight, thus proactively enhancing internal control systems and improving the integrity of financial reporting in an IFRS environment.

Despite the widespread use of the EM models *[7],* [8], [9], [10], they remain estimation tools and may not comprehensively capture EM behavior in practice, especially real activities-based earnings management such as cash flow manipulation, operational adjustments, or earnings smoothing through resource allocation. Other influencing factors such as corporate governance, state ownership, and board characteristics were not incorporated into the models.

To address these limitations and deepen the understanding of IFRS's impact in Vietnam, future research could expand EM measurement by including real earnings management (REM) indicators such as R&D expenditures, inventory manipulation, or sales discounts. Additionally, incorporating governance and ownership variables such as foreign ownership, state ownership, board size, and the proportion of independent directors can help examine the interactive effects between IFRS and organizational attributes on accounting behavior.

Appendix: Regression Results Using PSM

. psmatch2 post_treated ROA SIZE LEV, out(EM_J91) neighbor(1) caliper(0.05) logit

```
Logistic regression                                    Number of obs = 10,207
                                                       LR chi2(3)    = 647.80
                                                       Prob > chi2   = 0.0000
Log likelihood = -5594.419                             Pseudo R2     = 0.0547
```

post_treated	Coefficient	Std. err.	z	P>|z|	[95% conf. interval]	
ROA	-.17573	.284703	-0.62	0.537	-.7337377	.3822777
SIZE	.3553116	.0154835	22.95	0.000	.3249645	.3856587
LEV	-1.227714	.1044812	-11.75	0.000	-1.432493	-1.022935
_cons	-10.08285	.409511	-24.62	0.000	-10.88548	-9.280226

Note: 9 failures and 0 successes completely determined.

Variable	Sample	Treated	Controls	Difference	S.E.	T-stat
EM_J91	Unmatched	.099763437	.094602099	.005161338	.002332454	2.21
	ATT	.099763437	.087255939	.012507498	.003249294	3.85

Note: S.E. does not take into account that the propensity score is estimated.

psmatch2: Treatment assignment	psmatch2: Common support On suppor	Total
Untreated	7,486	7,486
Treated	2,721	2,721
Total	10,207	10,207

. pstest ROA SIZE LEV, treat(post_treated) both graph

Variable	Unmatched Matched	Mean Treated	Control	%bias	%reduct |bias|	t-test t	p>|t|	V(T)/ V(C)
ROA	U	.05172	.03941	13.5		5.68	0.000	0.56*
	M	.05172	.05601	-4.7	65.2	-2.00	0.045	0.93*
SIZE	U	27.598	26.818	49.4		22.41	0.000	1.14*
	M	27.598	27.561	2.3	95.3	0.85	0.397	1.06
LEV	U	.45322	.55651	-11.8		-4.40	0.000	0.04*
	M	.45322	.44194	1.3	89.1	1.79	0.073	0.98

* if variance ratio outside [0.93; 1.08] for U and [0.93; 1.08] for M

Sample	Ps R2	LR chi2	p>chi2	MeanBias	MedBias	B	R	%Var
Unmatched	0.055	656.76	0.000	24.9	13.5	33.1*	0.11*	100
Matched	0.001	5.62	0.131	2.8	2.3	6.4	1.03	33

* if B>25%, R outside [0.5; 2]

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