

The Effect of Top Management Team Characteristics and Inquiry Letter Supervision on Earnings Management: Evidence from China

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ABSTRACT

Based on the samples of Shanghai and Shenzhen A-share listed companies from 2016 to 2024, this study empirically analysed the influence of top management team characteristics on earnings management and explored the moderating effect of the inquiry letter supervision. The results showed that financial expertise and average tenure in top management team significantly inhibited accrual earnings management, while overconfidence significantly exacerbated this behaviour. Meanwhile, the influence of average age and the proportion of female executives of top management team was not significant. The moderating effect revealed that the inquiry letter, as an external regulatory pressure signal, did not weaken but rather enhanced the positive effect of overconfidence on earnings management. This indicated that the actual effectiveness of non-punitive regulatory tools may be constrained by the psychological characteristics of the top management team.

1. INTRODUCTION

Earnings management has always been a research topic of concern in the field of accounting. Regarding this issue, scholars have conducted extensive research from multiple perspectives, such as motivation and economic consequences. However, the earnings management behaviour of listed companies is becoming increasingly frequent, leading to the decreased quality of the financial report information. In this context,

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in order to protect the interests of investors and creditors, earnings management has increasingly become the focus of regulators.

The top management team (TMT) is the core of corporate decision-making. Due to the agency conflict and information asymmetry between shareholders and managers, the management of listed companies possess the motivation and ability to implement earnings management. The Upper Echelon Theory posits that members of the TMT have significant differences in background characteristics, personal experiences, and psychological characteristics, making it difficult for them to make fully rational decisions, leading to decision-making differences among enterprises (Chen et al., 2024). The existing research on management characteristics and cognitive bias has mainly been carried out from two dimensions, namely, demographic characteristics, such as gender, age, tenure, and professional background (Philip & Wanggao, 2022; Suherman et al., 2023); and psychological characteristics, such as managers' overconfidence (Bo & Li, 2024). In view of the important impact of these two dimensions on enterprise decision-making, this study mainly focused on the experience, team composition, and psychological characteristics of the TMT. Which characteristics of the executive team can have practical effects? Do the effects of these characteristics vary in different situations? These questions need to be answered by systematic empirical research. Recent studies have emphasised that attention should be paid to the overall characteristics of the TMT, rather than limited to individuals, such as the Chief Executive Officer or Chief Financial Officer (Nurmayanti et al., 2022). Accordingly, concurring with existing research and relevant provisions of the Economic Law of the People's Republic of China and the Company Law, this study defined top management as managers, deputy managers, persons responsible for finance, the secretary of the board of directors, and other personnel clearly stipulated in the Articles of Association of the listed company.

Under the continuous transformation of the capital market regulatory model, the inquiry letter has become an important tool for front-line supervision. The public disclosure of the inquiry letter not only enhances regulatory transparency, but also conveys negative signals to the market regarding the questionable financial information and governance deficiencies of the company, thereby attracting high attention from investors and the media. As the core entity for preparing enterprise financial reports, the TMT will face dual pressures of regulatory accountability and public opinion evaluation after receiving the inquiry letter. This pressure may prompt them to re-examine the logic of financial decisions, actively adjust earnings management behaviours, and even promote internal governance optimisation (Qian et al., 2024). From the perspective of psychological cognition, the inquiry letter will increase the sensitivity of executives to compliance risks, weaken their motivation to engage in opportunistic behaviour by exploiting information asymmetry, ultimately leading to more prudent financial decisions. Theoretically, the inquiry letter can either directly deter the earnings management behaviour of the TMT or regulate and even reshape the governance effectiveness of the executive team's characteristics through the signaling mechanism. However, existing studies have mostly focused on the direct impact of the inquiry letter, and have rarely explored how it interacts with the characteristics of the TMT. Whether the inquiry letter can become a catalyst for guiding or constraining the behavioural logic of the TMT remains to be systematically tested. Based on this, this study took the inquiry letter as a moderating variable to examine its moderating role in the relationship between the multi-dimensional characteristics of the TMT and corporate earnings management, in order to reveal whether there was a synergistic effect or a substitution effect between external supervision and internal governance.

Based on the samples of Chinese A-share listed companies from 2016 to 2024, this research studied the influence of top management characteristics on corporate earnings management and the moderating role of inquiry letters in the above relationship from the perspective of the interaction between internal operations and external supervision. The main contributions of this research were as follows: First, based on the institutional background of China's emerging capital market, it systematically examined the influence of the demographic characteristics of the TMT, such as professional background, age, tenure, gender, and the psychological characteristics of overconfidence of the management team on earnings management behaviour, consequently enriching the empirical research of the Upper Echelons Theory in the Chinese context. Second, different from previous studies that have mainly focused on the direct effect of the characteristics of the TMT on earnings management, this study introduced the inquiry letter as the moderating variable of external supervision, revealing how non-punitive regulatory inquiry interacted with the TMT, thus deepening the understanding of the coordination mechanism of internal and external supervisions. Third, this article further incorporated the phenomenon of management team overconfidence into the analytical framework, providing a new theoretical perspective for understanding the heterogeneity effects of regulatory inquiries. Fourth, different from previous studies on annual reports, this research extended the scope of inquiries to those related to periodic reports, such as quarterly reports, semi-annual reports, and annual reports, providing new empirical evidence for the design of regulatory systems and optimisation of corporate governance in emerging capital markets.

The rest of this article is structured as follows. In Section 2, a systematic review of the existing literature is conducted and the research hypotheses are proposed based on this review. Section 3 elaborates on the research design, including the sample selection process, variable measurement methods, and the construction of the empirical model. Section 4 reports the empirical analysis results and provides a discussion. Section 5 concludes the paper and summarises the main research conclusions.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Financial Expertise and Earnings Management

According to the Upper Echelons Theory, the professional background of the executive team, as the key link connecting the enterprise and external resources, has a significant impact on earnings management. Executives with accounting and financial backgrounds can provide more professional financial judgments and improve the quality of information processing, thereby helping to reduce earnings management behaviours (El Diri et al., 2020; Al-Matari et al., 2023). Although existing studies have generally considered the professional background of the executive team as an important variable to explain earnings management behaviours, the findings have not been consistent. After a comprehensive analysis of financial background and gender characteristics, Zalata et al. (2022) found that financial expertise was a necessary condition for executives to effectively perform supervision functions. Nurmayanti et al. (2022) conducted a study on Indonesian manufacturing enterprises and pointed out that CEOs and CFOs with financial expertise can utilise their profound understanding of accounting standards to implement accrual earnings management within the permitted scope of the rules, in order to achieve profit manipulation. In contrast, El Diri et al. (2020) believed that financial expertise gave the executive team the ability to identify and suppress earnings management, thereby reducing the occurrence of accrual earnings management. With the continuous improvement of China's capital market regulatory system, the compliance cost of accrual earnings

management had significantly increased. In this context, executives with financial expertise may be more inclined to avoid such profit manipulation that can be easily detected by regulations. Therefore, this study proposed the following hypothesis:

H1: The proportion of financial expertise in top management team has a negative relationship with accrual earnings management.

2.2 Tenure and Earnings Management

According to the Upper Echelons Theory, managers' strategic cognitive framework and risk preferences can change systematically over the course of their tenure, thus affecting their decision-making behaviour (Nurmayanti et al., 2022). Current studies on the relationship between tenure and earnings management have reached different conclusions at the individual and team levels. At the individual level, Ameila and Eriandani (2021) found through their research on CEOs that as the tenure increases, CEOs will report earnings more cautiously to maintain their own reputation, thereby reducing earnings management behaviour. Khunkaew et al. (2019) also supported this view based on their research on listed companies in Thailand, finding that the longer the tenure of the executive team, the more the manipulation of accrual items would be reduced. They believed that long-serving executive team members could achieve more effective interaction and collaboration. Hsieh et al. (2018) pointed out from the perspective of incentives that long-serving executives pay more attention to the long-term development and reputation of the company, making them less susceptible to short-term incentives, thereby inhibiting earnings management. However, there were also studies that had found contrary evidence. Zhang (2019) found that when enterprises had an upward earnings management motivation, the longer the tenure of the executive team members working together, the more likely the company was to use earnings management to increase profits. These contradictory conclusions indicated that the relationship between tenure and earnings management may be influenced by various factors, such as the enterprise's motivation, the quality of team collaboration, and the external regulatory environment. Based on this, the following hypothesis was proposed:

H2: The average tenure has a negative relationship with accrual earnings management.

2.3 Age and Earnings Management

The Upper Echelons Theory points out that the observable characteristics of top management are effective proxy variables for their cognitive framework, risk preference, and value orientation, which in turn, affect enterprises' strategic choices and financial reporting decisions. Age, as one of the most fundamental demographic characteristics, reflects the accumulation of experience, risk tolerance, and decision-making maturity of senior executives, and thus has received extensive attention from researchers in the field of earnings management. Bhatti et al. (2022), from the perspective of financial style, proposed that the age characteristic of top management not only reflected their risk preference and decision-making maturity, but also systematically affected earnings management and risk level of enterprises. This viewpoint provided a new theoretical perspective for understanding the relationship between age and earnings management, in that age differences shaped the unique decision-making patterns of managers, thereby generating differentiated financial consequences. Existing literature has generally supported the negative correlation between the age of top management members and earnings management, i.e., older executives tended to reduce earnings manipulation behaviour. Nurmayanti et al. (2022) used age as an effective proxy

variable for the cognition, values, and risk preferences of the senior executive team to conduct research on Indonesian manufacturing enterprises; they found that the age characteristic was significantly and negatively correlated with accrual earnings management. The study argued that older executives were more cautious, risk-averse, and behaved more ethically, thus showing a lower propensity to manipulate earnings in financial reporting decisions. Qi et al. (2018) further confirmed this conclusion in the context of the Chinese capital market. They found that senior executives approaching retirement were more conservative, risk-averse, and had higher organisational commitment, and therefore were reluctant to engage in accrual earnings management and real earnings management behaviours. This finding explained the intrinsic motivation of older executives to maintain their reputation and avoid risk from the perspective of the career concern and the Upper Echelons Theory. Based on previous theories and research, this research put forward the following hypothesis:

H3: The average age of the top management team is negatively correlated with accrual earnings management.

2.4 Gender and Earnings Management

The extant literature has mainly explained the relationship between executive team members' gender and earnings management from two perspectives. The first was the risk aversion perspective, which held that females had a greater tendency towards risk aversion compared to males, and therefore, were less likely to engage in high-risk earnings manipulation behaviours (Nurmayanti et al., 2022; Chen et al., 2024). The second was the moral level perspective, which suggested that females had higher moral standards and ethical sensitivity, and were less likely to engage in opportunistic behaviours (Nurmayanti et al., 2022; Chen et al., 2024).

Based on the above Theory, numerous empirical studies have examined the impact of female executives on earnings management. Chen et al. (2024) conducted a study on a sample of Chinese A-share listed companies and found that male CEOs were more inclined to engage in earnings management than female CEOs. Nurmayanti et al. (2022) used manufacturing enterprises in Indonesia as the research sample, and found that the proportion of female executives was significantly and negatively correlated with both accrual earnings management and real earnings management; this effect was particularly obvious at the CFO and overall TMT levels. In studies of the Chinese capital market, Bhatti et al. (2022) used Chinese non-financial enterprises as the research scope, and found that gender was an important component of the financial style of executives, significantly influencing earnings management and enterprise risk decisions. Male executives tended to engage in more aggressive earnings management behaviours, while female executives tended to be more conservative and risk-averse. Further, Li et al. (2023) conducted a study on Chinese A-share listed companies and confirmed that female executives significantly inhibited the occurrence of earnings management in different capital market environments. Based on the above empirical analysis, this study proposed the following hypotheses:

H4: The higher the proportion of female executives, the lower the degree of accrual earnings management.

2.5 Managerial Overconfidence and Earnings Management

Overconfidence is defined as a kind of psychological trait. Psychological research has shown that people are not completely rational, and their beliefs and preferences often have systematic biases. Among them, overconfidence is regarded as one of the most common cognitive biases. This is manifested by the tendency of managers to excessively overestimate their own ability, judgment, and correctness of decisions, believing that they can control risks and outcomes. The Upper Echelons Theory states that managers' cognitive foundations, values, and perceptions influence their strategic choices. Due to the difficulty of direct observation of cognitive biases, in recent years, scholars have developed a variety of more direct methods for measuring overconfidence and explored its impact on various corporate decisions (Jin et al., 2024; Qian et al., 2026).

A large number of empirical studies have confirmed that overconfident managers are more prone to earnings manipulation due to overestimating future performance, underestimating risks, and the probability of being discovered. Qiao et al. (2025) used the option exercise method to measure overconfidence in the sample of American listed companies and found that CFO overconfidence significantly increased accrual earnings management. In the Chinese context, Chen et al. (2024) measured CEO overconfidence using the compensation ratio method, and confirmed that CEO overconfidence significantly increased earnings management, and male CEOs were more aggressive than female CEOs. Further, Bhatti et al. (2022), from a cultural perspective, argued that Chinese managers, due to low uncertainty avoidance, generally had an overconfidence tendency. This cognitive bias significantly increased corporate earnings management and risk-taking behaviours. In conclusion, although the measurement methods and samples vary, the positive correlation between CEO/CFO overconfidence and earnings management has been verified in different institutional environments. Based on this, this study proposed the following hypothesis:

H5: Managerial overconfidence is positively correlated with accrual earnings management.

2.6 The Moderating Effect of Inquiry Letter Supervision

In China's securities market, the importance of the front-line supervision function of stock exchanges has become increasingly prominent (Zhang et al., 2025). Under this framework, the inquiry letter has become a crucial means for the Exchanges to supervise the quality of listed companies' information disclosure. According to the Signal Transmission Theory, the inquiry letter can not only reveal the specific problems existing in the financial report of the enterprise, but also effectively improve the transparency of financial information by urging the company to supplement the disclosure, correct the error, or require the audit agency to issue verification opinions.

From the perspective of the Deterrence Theory, inquiry letter supervision can be regarded as a situational moderating variable. By raising the disclosure standards and increasing the cost of illegal operations, it can either strengthen or weaken the relationship between the characteristics of top management and accrual earnings management. When the company receives the inquiry letter, the external regulatory pressure will prompt the executives to be more cautious in making their judgments, thereby enabling their personal characteristics, such as financial expertise, tenure, age, and gender, to play a more obvious or synergistic regulatory role in the relationship with accrual earnings management. In particular, overconfidence, a common cognitive bias, may weaken the deterrent effect of the inquiry letter when it interacts with the cognitive biases of overconfident managers, and even strengthen their earnings management behaviour. However, systematic research has rarely been conducted on the interaction effect

between the inquiry letter and the individual characteristics of the TMT. Therefore, this study proposed the following hypotheses:

H6a: Inquiry letter supervision moderates top management team financial expertise and accrual earnings management.

H6b: Inquiry letter supervision moderates top management team tenure and accrual earnings management.

H6c: Inquiry letter supervision moderates top management team age and accrual earnings management.

H6d: Inquiry letter supervision moderates top management team gender and accrual earnings management.

H6e: Inquiry letter supervision moderates managerial overconfidence and accrual earnings management.

3. METHODOLOGY

3.1 Data collection

This article used all A-share companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange from 2016 to 2024 as the initial observation sample. To ensure data quality and the validity of the analysis, the samples were gradually screened according to the following criteria: (1) Exclude companies in the financial industry; (2) Exclude companies that have been subject to special treatment (ST); and (3) Eliminate the samples with missing records of the variables. Considering that the Stock Exchanges only officially began to publicly disclose financial report inquiry documents in 2016, the starting year of the sample was set as 2016. All financial and corporate governance data were taken from the China Stock Market and Accounting Research Database. In order to weaken the potential impact of extreme values on parameter estimation, all continuous variables were winsorized at the 1% and 99% quantiles. In addition, to control for the possible dependence between internal observations of the companies, the standard errors of all regression analyses were clustered and corrected at the company level.

3.2 Measurements of variables

This article referred to the research method of Bawuah (2024) and selected accrual earnings management as the dependent variable. This method was based on the modified Jones (1991) model by Dechow et al. (1995). The specific calculation formula was as follows:

$$\frac{TA_{i,t}}{A_{i,t-1}} = \alpha_0 \frac{1}{A_{i,t-1}} + \alpha_1 \frac{\Delta Sales_{i,t}}{A_{i,t-1}} + \alpha_2 \frac{PPE_{i,t}}{A_{i,t-1}} + \varepsilon_{i,t} \quad (1)$$

$$AEM_{i,t} = \frac{TA_{i,t}}{A_{i,t-1}} - \hat{\alpha}_0 \left(\frac{1}{A_{i,t-1}} \right) - \hat{\alpha}_1 \left(\frac{\Delta Sales_{i,t} - \Delta Recs_{i,t}}{A_{i,t-1}} \right) - \hat{\alpha}_2 \left(\frac{PPE_{i,t}}{A_{i,t-1}} \right) \quad (2)$$

Based on formula (1), it separately fits the regression parameters α_0 , α_1 and α_2 for different years and industries. After substituting the obtained parameters into formula (2), the deviation value between the actual accrual profit and the normal accrual profit was calculated, which was the manipulative accrual profit. To avoid the influence of positive and negative cancellation on the measurement, this study reflected on the intensity of accrual earnings management of the enterprise by its absolute value. The larger the value, the higher the degree of earnings management.

Independent variables consisted of TMT financial expertise (TMTFIN), TMT tenure (TMTTEN), TMT age (TMTAGE), TMT gender (TMTGEN) and TMT managerial overconfidence (TMTCON). The moderating variable was whether or not the listed company received an inquiry letter concerning the financial report of the previous year in the current year. The measurements of all independent variables, moderating variable, and control variables are all listed in Table 1.

Table 1. The explanation of variables

Types	Variables	Explanation	References
Dependent variable	AEM	The absolute value of manipulative accrued profits	Bawuah (2024)
Independent variables	TMTFIN	The proportion of executives with financial and accounting experience	Nurmayanti et al. (2022)
	TMTTEN	TMT average tenure	Aboramadan (2021)
	TMTAGE	TMT average age	Aboramadan (2021)
	TMTGEN	The proportion of female executives	Nurmayanti et al. (2022)
	TMTCON	Top 3 managers' compensation/total managers' compensation	Bo & Li (2024)
Moderating variable	IL	An indicator equals 1 if the firm receives inquiry letters, and 0 otherwise	Qian et al. (2024)
Control variables	SIZE	The natural logarithm of the total assets	Bo & Li (2024)
	CFO	Operating cash flow to total assets	Seo & Yoon (2025)
	LISTAGE	The natural logarithm of the number of years the company has been listed+1	Yu & Lee (2022)
	INDEP	The proportion of independent directors	Seo & Yoon (2025)
	Ind	Controlling industry fixed-effects	Wang (2024)
	Year	Controlling year fixed-effects	Wang (2024)

Source: CSMAR Database (2024 Edition)

3.3 Regression model

To test the relationships among the variables proposed in Hypotheses H1-H5, this study followed the methods of Brahma et al. (2021) and Arkter et al. (2024), and conducted regression analysis using a dynamic panel data model. Specifically, this study employed a two-step system generalised method of moments (GMM) estimation, mainly considering that the behaviour of corporate earnings management had

a significant persistence feature, i.e., current earnings management was often influenced by previous earnings management behaviour. Secondly, there may be endogeneity problems caused by reverse causality or omitted variables between executive characteristics and earnings management. We conducted the Durbin-Wu-Hausman test for all the regressors. Testing for endogeneity by Durbin-Wu-Hausman implied rejection of the null hypothesis that the explanatory variables were exogenous ($\chi^2(9)=80.56$, $p=0.000$), so the system GMM was used. System GMM can simultaneously control individual heterogeneity and endogeneity issues by using lagged values of variables as internal instrumental variables, thereby providing more efficient and accurate estimation results. To test the direct effects proposed by Hypotheses H1 to H5 and the moderating effects involved in Hypothesis H6, this study constructed the following dynamic model:

$$AEM_{it} = \beta_0 + \beta_1 AEM_{it-1} + \beta_2 TMTFIN_{it} + \beta_3 TMTTEN_{it} + \beta_4 TMTAGE_{it} + \beta_5 TMTGEN_{it} + \beta_6 TMTCON_{it} + \beta_7 SIZE_{it} + \beta_8 CFO_{it} + \beta_9 LISTAGE_{it} + \beta_{10} INDEP_{it} + \Sigma Ind + \Sigma Year + \varepsilon \quad (3)$$

$$AEM_{it} = \beta_0 + \beta_1 AEM_{it-1} + \beta_2 TMTFIN_{it} + \beta_3 TMTTEN_{it} + \beta_4 TMTAGE_{it} + \beta_5 TMTGEN_{it} + \beta_6 TMTCON_{it} + \beta_7 IL_{it} + \beta_8 TMTFIN_{it} \times IL_{it} + \beta_9 TMTTEN_{it} \times IL_{it} + \beta_{10} TMTAGE_{it} \times IL_{it} + \beta_{11} TMTGEN_{it} \times IL_{it} + \beta_{12} TMTCON_{it} \times IL_{it} + \beta_{13} SIZE_{it} + \beta_{14} CFO_{it} + \beta_{15} LISTAGE_{it} + \beta_{16} INDEP_{it} + \Sigma Ind + \Sigma Year + \varepsilon \quad (4)$$

In order to further verify the robustness of the research results, based on the system GMM, this research also used the fixed-effects (FE) model for supplementary analysis to confirm the consistency of the main conclusions. In terms of model selection, this study first determined the optimal scheme among Ordinary Least Squares, FE model and random-effects model through the Breusch-Pagan Lagrange Multiplier and Hausman tests. Brahma et al. (2021) and Akter (2024) both pointed out that the FE regression was a beneficial supplement to the GMM method, which helped to obtain more reliable research results.

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Table 2 presents the descriptive statistics of the main variables. Firstly, the mean of AEM was 0.055, the median was 0.037, and the standard deviation was 0.059, indicating that there were certain differences in the degree of earnings management among the sample enterprises. In terms of the characteristics of the TMT, the mean of the proportion of financial expertise (TMTFIN) was 0.407, indicating that approximately 40.7% of the members in the TMT of the sample companies had a financial background. The standard deviation was 0.205, reflecting the significant differences in the allocation of financial expertise among different companies. The average tenure of TMT (TMTTEN) was 4.488 years, the median was 4.177 years, and the standard deviation was 1.952 years, indicating that the tenure of executives in most companies was relatively concentrated, but there were still some enterprises where the tenure of executives was longer or shorter. The average age of the TMT (TMTAGE) was 48.762 years, and the standard deviation was 3.550 years. The overall age distribution was relatively stable. The mean and median of the proportion of female executives (TMTGEN) was 0.181 and 0.167, indicating that the proportion of females in the TMT of the sample enterprises was about 18.1%, which was relatively low, and the difference between different enterprises was small. The average of TMTCON was 0.650, indicating that the TMT in the sample enterprises showed a high level of overconfidence.

Table 2. Summary statistics

Variables	Obs	Mean	Median	SD	Min	Max
AEM	30164	0.055	0.037	0.059	0.001	0.332
TMTFIN	30164	0.407	0.375	0.205	0.071	1.000
TMTTEN	30164	4.488	4.177	1.952	1.215	10.683
TMTAGE	30164	48.762	48.833	3.550	39.667	56.833
TMTGEN	30164	0.181	0.167	0.172	0.000	0.667
TMTCON	30164	0.650	0.632	0.186	0.296	1.000
IL	30164	0.124	0.000	0.330	0.000	1.000
SIZE	30164	22.444	22.250	1.296	20.072	26.413
CFO	30164	0.048	0.047	0.066	-0.153	0.239
LISTAGE	30164	8.174	8.251	0.764	6.422	9.312
INDEP	30164	37.977	36.360	5.426	33.330	57.140

Source: Based on CSMAR database and CNRDS, the calculation was processed using Stata 18.0.

4.2 Correlation analysis

To examine the issue of multicollinearity among the variables, this study conducted a correlation analysis and variance inflation factor (VIF) test. The results are shown in Table 3. According to Akter et al. (2024), a correlation coefficient exceeding 0.80 indicated the presence of a collinearity problem. In this research, the highest correlation coefficient among the variables was only 0.429, which was below this judgment standard. At the same time, the VIF test results showed that the VIF values of all variables were all below the commonly used critical value of 10, with the maximum value being 1.37. Based on these two tests, it was concluded that there was no serious multicollinearity problem among the variables in this research.

Table 3. Correlation coefficients

	AEM	TMTF IN	TMTT EN	TMTA GE	TMTG EN	TMTC ON	IL	SIZE	CFO	LISTA GE	INDE P
AEM	1										
TMTF IN	0.064* **	1									
TMTT EN	- 0.081* **	- 0.056* **	1								
TMTA GE	- 0.128* **	- 0.105* **	0.296* **	1							
TMTG EN	0.013* *	0.130* **	-0.003	- 0.183* **	1						
TMTC ON	0.085* **	0.429* **	- 0.020* **	- 0.113* **	0.139* **	1					
IL	0.142* **	0.111* **	- 0.106* **	- 0.120* **	0.044* **	0.100* **	1				
SIZE	- 0.094* **	- 0.025* **	- 0.027* **	0.260* **	- 0.144* **	- 0.212* **	- 0.097* **	1			
CFO	- 0.152* **	- 0.058* **	0.048* **	0.094* **	0.003	- 0.021* **	- 0.105* **	0.091* **	1		
LISTA GE	0.005	0.222* **	0.091* **	0.228* **	- 0.087* **	0.011* **	0.071* **	0.416* **	- 0.024* **	1	
INDEP	0.019* **	0.034* **	-0.003	- 0.034* **	0.049* **	0.110* **	0.029* **	- 0.021* **	- 0.014* *	- 0.029* **	1

Source: Same as above table. Standard errors in parentheses: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$;

4.3 Regression results

This research employed the two-step system GMM method to examine the impact of the characteristics of the TMT on earnings management. The regression results are presented in Table 4. In terms of model diagnosis, the P-value of AR(1) was 0.000, and that of AR(2) was 0.156, indicating that the residuals had first-order autocorrelation, but no second-order autocorrelation, which met the validity premise of the system's GMM model. The p-value of the Hansen test was 0.739, which was much greater than 0.1, indicating that the instrumental variables were overall effective and there was no over-identification problem. Specifically, the coefficient of the one-year lagged term of accrual earnings management (L_AEM) was 0.285, which was significantly positive at the level of 5%, confirming the significant persistence of earnings management behaviour, and supporting the rationality of using the dynamic panel model.

TMTFIN was negatively correlated with earnings management, with significance at the 5% level in the system GMM model and at the 10% level in the FE model. This indicated that the higher the proportion of financial expertise within the TMT, the lower the enterprise's accrual earnings management level, which was consistent with H1. A possible explanation was that executives with financial backgrounds were more familiar with accounting standards, financial reporting processes, and earnings manipulation methods, and can more effectively identify and suppress improper accrual-based earnings management behaviours. On the other hand, executives with financial expertise were also more inclined to maintain the authenticity and compliance of financial information, thereby fulfilling the internal supervision function. This result was consistent with the findings of El Diri et al. (2020) and the Agency Theory, supporting the positive role of financial expertise in corporate governance. Furthermore, the significant changes indicated that, after controlling for endogeneity and dynamic panel bias, the inhibitory effect of TMTFIN on earnings management became more robust. This suggested that the FE model may underestimate the governance role of financial background executives due to omitted variables or reverse causality issues. TMTTENURE showed a significantly negative correlation at the 1% level in both models, indicating that the average tenure of the TMT was positively correlated with lower accrual earnings management levels, which was consistent with H2. This result supported both the Upper Echelons Theory and the risk aversion perspective, which suggested that executives with longer tenures often had stronger career stability and risk-averse tendency, and placed more importance to long-term value rather than short-term financial goals of the enterprise. In addition, their rich management experience and mature professional ethics awareness, made them more inclined to adopt conservative accounting policies, effectively restraining aggressive earnings management behaviour (Bhatti et al., 2022; Nurmayanti et al., 2022). Under both the GMM model and the FE model, TMTGEN was statistically insignificant, indicating that there was no statistically significant relationship between the proportion of female executives and accrual earnings management, and H4 was not supported. The possible explanation was that the mechanism of influencing the quality of financial reporting only through gender characteristics in the senior management team was difficult to function effectively. Similarly, Zalata et al. (2022) found that female directors without relevant financial backgrounds were not able to significantly suppress earnings management. Therefore, the inhibitory effect of female executives on earnings management may not stem from gender itself, but rather depended more on their professional knowledge and actual governance capabilities. Finally, TMTCON showed a significantly positive correlation in both models, with a significance level of 1% in the FE model and a significant 5% level in the GMM model. This change indicated that the FE model may overestimate the impact of overconfidence on earnings management, while the system GMM provided more conservative and reliable estimates by

controlling for unobservable heterogeneity and endogeneity. In general, this indicated that the overconfidence tendency of the TMT significantly exacerbated the accrual earnings management behaviour, which was consistent with the expectation of H5. Overconfident executives often overestimated their own abilities and future performance, and tended to set overly optimistic profit targets. When actual performance failed to meet expectations, they were more likely to meet targets or cover up failures through earnings manipulation. Besides, overconfidence may also reduce the executives' emphasis on the prudence of financial reporting and increase the possibility of choosing aggressive accounting policies. This finding was consistent with relevant research, suggesting that overconfidence was an important psychological factor inducing earnings management (Jin et al., 2024; Qian et al., 2026).

It was worth noting that in the FE model, TMTAGE was negatively correlated with accrual earnings management at the 10% level. However, in the system GMM model, it failed to pass the significance test. This result indicated that after controlling for endogeneity and dynamic panel bias, the average age of the TMT had no significant impact on accrual earnings management, and H3 was not supported. A possible explanation was that older executives usually had a higher risk-averse tendency and tended to adopt conservative financial reporting strategies, thereby inhibiting earnings manipulation. However, the short-sighted decision-making caused by approaching retirement may have generated the motivation for earnings management. The two opposing effects may have cancelled each other out, resulting in an overall insignificant impact. The marginal significance observed in the FE model was likely due to endogeneity bias.

Table 4. Results of regression using FE and GMM models

	FE model	GMM model
	AEM	AEM
L_AEM		0.285**
		(0.143)
TMTFIN	-0.006*	-0.007**
	(0.003)	(0.004)
TMTTEN	-0.001***	-0.002***
	(0.000)	(0.000)
TMTAGE	-0.000*	-0.000
	(0.000)	(0.001)
TMTGEN	-0.000	-0.009
	(0.004)	(0.008)
TMTCON	0.013***	0.018**

	FE model	GMM model
	AEM	AEM
	(0.004)	(0.007)
SIZE	-0.004***	-0.006***
	(0.002)	(0.001)
CFO	-0.064***	-0.071***
	(0.011)	(0.011)
LISTAGE	0.008***	0.014***
	(0.002)	(0.002)
INDEP	0.000	0.000**
	(0.000)	(0.000)
Constant	0.110***	0.042
	(0.041)	(0.027)
N	29810	24973
r ²	0.317	
r ² _a	0.194	
F	9.22	
Breusch-Pagan LM test (p-value)	0.000	
Hausman F/R test (p-value)	0.000	
Durbin-Wu-Hausman test for endogeneity (p-value)		0.000
No. of instruments (groups)		60 (4507)
AR(1)p-value		0.000
AR(2)p-value		0.156
Hansen(p-value)		0.739

Source: Same as above table. Standard errors in parentheses: * p < 0.10, ** p < 0.05, *** p < 0.01; All models controlled for industry and year fixed effects.

The results of the moderating effects as in Table 5 showed that there was a significant interaction between managerial overconfidence and inquiry letters. Specifically, the inquiry letter mechanism significantly enhanced the positive impact of overconfidence on earnings management, thereby supporting Hypothesis H6e. This result may be due to the following reasons. Firstly, enterprises that received inquiry letters usually faced higher regulatory attention and performance pressure. In this context, overconfident management was more likely to adopt aggressive earnings management behaviours to respond to regulatory expectations. Secondly, the inquiry letter, as an external supervisory signal, may have triggered the rebellious psychology of overconfident executives, further strengthening their risk-taking tendency. Thirdly, the regulatory effectiveness of the inquiry letter was also constrained by institutional environment characteristics. In the Chinese institutional context, the inquiry letter belonged to "non-punitive regulatory" measures, without immediate or administrative penalties. Overconfident management tended to underestimate their reputational risks and subsequent regulatory pressures, believing that "a reply and explanation are sufficient". In practice, some enterprises had delayed their responses or given perfunctory responses, indicating that the regulatory deterrent effect of the inquiry letter had been weakened or even reversed under the influence of overconfidence. Instead, due to the accumulation of pressure, earnings management behaviour was exacerbated.

Besides, these results indicated that the inquiry letter supervision mechanism failed to significantly moderate the impact of financial expertise, tenure, age, and the proportion of female executives on accrual earnings management. The possible reason was that the demographic characteristics of TMT, such as financial expertise, age, and gender, were relatively stable, which belonged to individual characteristics and career accumulation formed over a long period of time. Their influence on decision making of corporate financial reporting had been internalized as relatively fixed governance models. As a short-term external regulatory impact, the inquiry letter was difficult to change the governance behaviour pattern determined by these long-term characteristics. In contrast, overconfidence, as a psychological trait, was more sensitive to changes in the external environment and was easily triggered by regulatory signals to change behavioral responses. In summary, as an external supervision mechanism, the impact of the inquiry letter on earnings management may be complex, and it was mainly influenced by the psychological characteristics and coping styles of the TMT. This result provided a reference for the practice of supervision, and the effect of supervision may be biased or even reversed in the context of executives' overconfidence.

Table 5. Moderating effect of inquiry letter

	IL dummy		IL2 number of letters	
	FE model	GMM model	FE model	GMM model
	AEM	AEM	AEM	AEM
L_AEM		0.109*** (0.028)		0.103*** (0.028)
TMTFIN	-0.005 (0.003)	-0.112 (0.147)	-0.005 (0.003)	-0.118 (0.163)
TMTTEN	-0.001*** (0.000)	0.005 (0.009)	-0.001*** (0.000)	0.005 (0.009)
TMTAGE	-0.001* (0.000)	-0.003 (0.006)	-0.001* (0.000)	-0.003 (0.007)
TMTFEM	-0.000 (0.004)	0.252* (0.147)	-0.000 (0.004)	0.252 (0.156)
TMTCON	0.011*** (0.004)	0.042 (0.071)	0.011*** (0.004)	0.044 (0.079)
IL	0.006*** (0.001)	-0.003 (0.022)	0.009*** (0.002)	-0.000 (0.030)
FIN_IL	-0.017** (0.007)	0.053 (0.400)	-0.022** (0.010)	-0.018 (0.515)
TEN_IL	-0.001* (0.001)	0.029 (0.036)	-0.002* (0.001)	0.039 (0.048)
AGE_IL	-0.000 (0.000)	0.010 (0.017)	-0.000 (0.001)	0.010 (0.023)
FEM_IL	0.002 (0.008)	-0.212 (0.328)	0.004 (0.011)	-0.297 (0.467)

	IL dummy		IL2 number of letters	
	FE model	GMM model	FE model	GMM model
	AEM	AEM	AEM	AEM
CON_IL	0.025*** (0.008)	0.718** (0.336)	0.035*** (0.011)	1.005** (0.479)
SIZE	-0.004** (0.002)	-0.002 (0.002)	-0.004** (0.002)	-0.003 (0.002)
CFO	-0.064*** (0.011)	-0.080*** (0.028)	-0.064*** (0.011)	-0.082*** (0.029)
LISTAGE	0.007*** (0.002)	0.034* (0.018)	0.007*** (0.002)	0.032* (0.019)
INDEP	-0.000 (0.000)	-0.002 (0.004)	-0.000 (0.000)	-0.002 (0.005)
Constant	0.109*** (0.041)	0.016 (0.352)	0.109*** (0.041)	-0.026 (0.366)
N	29810	24266	29810	24266
r ²	0.319		0.319	
r ² _a	0.196		0.196	
F	7.18		7.33	
No. of instruments (groups)		42(4430)		42(4430)
AR(2)p-value		0.341		0.247
Hansen(p-value)		0.895		0.908

Source: Same as above table. Standard errors in parentheses: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$; All models controlled for industry and year fixed effects.

4.4 Robustness checks

Endogeneity

Considering the possible endogenous problems in the model, such as reverse causality and omitted variables, the two-step system GMM was used as the main model for estimation. In order to further verify the robustness of the research results, this study referred to the practice of Brahma et al. (2021) and Akter et al. (2024), and adopted the FE model as a supplementary method. In terms of model selection, this research conducted the Breusch-Pagan Lagrange multiplier (LM) test and the Hausman test. The results indicated that using the FE model provided a statistical basis for the robustness test. The estimation results of the two-step system GMM and the FE model are presented in Tables 4 and 5. The comparative analysis showed that in the baseline regression, the significance and sign direction of most key variables remained consistent in both models, confirming the robustness of the baseline regression conclusion. In the regulatory effect regression, the interaction term between management overconfidence and the inquiry letter was significantly positive, providing strong and robust support for Hypothesis H6e.

Alternative measurement of inquiry letter supervision

To ensure the robustness of the measurement method for the supervision mechanism of the inquiry letter, this study further replaced the measurement of the inquiry letter from the binary dummy variable of "whether the inquiry letter was received" to the continuous variable of "the number of inquiry letters received", and reexamined the moderation effect model. Model (1) and Model (2) in Table 5 presents the estimation results of the FE model and the system GMM under these two measurements, respectively. The results showed that the positive moderating effect of the inquiry letter on the relationship between management overconfidence and earnings management was not affected by its measurement method.

5. CONCLUSION

This study selected A-share enterprises listed on the Shanghai and Shenzhen Stock Exchanges from 2016 to 2024 as the sample, and conducted an empirical analysis of the impact of the characteristics of the TMT on accrual earnings management. It also focused on exploring the moderating role of the inquiry letter system in the above relationship. The research results showed that financial expertise and average tenure of the TMT were all significantly and negatively correlated with accrual earnings management, while overconfidence significantly exacerbated the earnings management behaviour, indicating that optimising the structure and psychological traits of the TMT can effectively suppress the earnings manipulation tendency. However, the impact of the average age and the proportion of female executives in the top management team on earnings management failed the significance test, which may be related to the offset of its positive and negative effects. Next, the analysis of the moderating effect revealed that the inquiry letter not only failed to weaken the positive impact of overconfidence on earnings management, but instead significantly strengthened this relationship. This finding indicated that non-punitive regulation may, due to the psychological biases of overconfident executives, produce unexpected counterproductive effects, leading to more aggressive earnings manipulation behaviors. In short, as a non-punitive regulatory tool, the in-depth implementation of the inquiry letter system showed certain effectiveness in improving the external regulatory mechanism of enterprises, but its actual effect was restricted by the psychological characteristics of the TMT.

5.1 Implications

The findings of this study have significant theoretical and practical implications. Theoretically, this study expanded the Upper Echelons Theory and found that financial expertise and average tenure in the TMT inhibited accrual earnings management, while overconfidence exacerbated earnings manipulation. Meanwhile, the inquiry letter had a significantly positive and moderating effect on the relationship between overconfidence and accrual earnings management, revealing the boundaries of the effectiveness of non-punitive regulation. In practice, as a non-punitive regulatory tool, the effect of the inquiry letter was significantly influenced by the psychological characteristics of senior executives. Therefore, it is necessary to strengthen post-supervision and follow-up inquiry, implement follow-up focused review of enterprises that receive inquiry letters and have signs of managerial overconfidence, and promote the effective connection between inquiry letters and compulsory means, such as administrative penalties. For listed companies, they should optimise the structure of the TMT to counteract the tendency of overconfidence.

5.2 Limitations and future research

This study has some limitations, which can provide directions for future research. This study only focused on accrual earnings management and did not cover real earnings management. Although accrual earnings management was the main form of earnings manipulation, enterprises may turn to real activity manipulation when facing regulatory pressure. Subsequent research can expand to the field of real earnings management to more comprehensively capture the behaviour of corporate earnings manipulation and test the heterogeneous impact of inquiry letters on different types of earnings management. Secondly, this study used the number of inquiry letters as an alternative indicator of inquiry letter supervision, but failed to distinguish the heterogeneous impact caused by the severity of the problem and the quality of the company's responses. Future research can adopt text analysis methods to construct more refined indicators of inquiry letter regulatory intensity, thereby more accurately depicting the dynamic impact of regulatory pressure on executive behaviour. Finally, this research did not explore the regulatory spillover effect of the inquiry letter mechanism, such as the deterrent effect of inquiry letters on other enterprises in the same industry or enterprises that have not received inquiry letters. Empirical studies in related fields can be carried out in the future.

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7. CONFLICT OF INTEREST STATEMENT

The authors agree that this research was conducted in the absence of any self-benefits, commercial or financial conflicts and declare the absence of conflicting interests with the funders.

8. AUTHORS' CONTRIBUTIONS

Pan Xi: Conceptualisation, methodology, formal analysis, investigation and writing-original draft; **Suhaily Hasnan:** Conceptualisation, supervision, methodology, and formal analysis; **Intan Waheedah Othman:** Conceptualisation, supervision, writing- review and editing, and validation.

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