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AN EMPIRICAL ANALYSIS OF THE RELATION BETWEEN CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT: CASE STUDY OF THAILAND

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Abstract:
Earnings management can be seen as a potential agency cost since managers manipulate earning to mislead shareholders and fulfill their own interests. This paper shows how the relationship between corporate governance and earnings management. A case study was undertaken 296 companies listed on the Stock Exchange of Thailand in the year 2010. The study also excludes financial, insurance, banking, and property fund sectors. The corporate governance which is the independent variables in this study focuses on board of director's structure and managerial ownership, which is proxied by board size, percentage of independent directors of the firm, CEO duality, Independent director who holds outside directorial positions and percentage of managerial ownership. The dependent variable is the earnings management, which is measured by discretionary accruals, which is calculated by Cross-sectional Modified Jones model. The control variables consist of audit firm size, firm size, profitability, leverage and type of industry. The multiple regression is used to test this relationship at 95% confidence. The study shows that an independent director who holds outside directorial has a significant positive relationship with earnings management.

Keywords: corporate governance, earnings management, discretionary accruals.

Remarks: Full paper is in a research stage and will be published after the discussion at the MakeLearn 2012 conference presentation.