

## The Impact of Diversification Strategy on Leverage and Accrual-Based Earnings Management

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**Abstract :** The aim of this research is to investigate the impact of diversification strategy on the nature of the relationship between leverage and accrual-based earnings management through panel-estimation techniques based on a sample of 162 nonfinancial French firms indexed in CAC All-Tradable during the period from 2006 to 2012. The empirical results show that leverage increases encourage managers to manipulate earnings management. Our findings prove that the diversification strategy provides the needed context for this accounting practice to be possible in highly diversified firms. In addition, the results indicate that diversification moderates the relationship between leverage and accrual-based earnings management by changing the nature and the sign of this relationship.

**Keywords :** diversification, earnings management, leverage, panel-estimation techniques

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