

The Effect of Corporate Governance on Earnings Management: When Firms Report Increasing Earnings

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Abstract : This study investigates the effect of corporate governance on earnings management when firms have reported a long stream of earnings increases (hereafter referred to as earnings beaters). We expect that good quality of corporate governance decreases the probability of income-increasing earnings management. We employ transparent tools to capture firms' opportunistic management behavior, specifically, the repurchase of stock. In addition, we use corporate governance proxies to measure the degree of corporate governance, including board size, board independence, CEO duality, and the frequency of meeting. The results hold after the controlling of variables that suggested in prior literature. We expect that the simple technique, that is, firms' degree of corporate governance, to be used as an inexpensive first step in detecting earnings management.

Keywords : corporate governance, earnings management, earnings patterns, stock repurchase

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