

Relationship between Board Characteristics and Earnings Management Evidence from Sri Lankan Listed Companies

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Abstract

Many studies carried out to investigate the link between board characteristics and firm performance in developed countries. The empirical evidence on this area is very thin in Sri Lanka being a developing country. Hence this study was undertaken with the intension of fulfilling the gap. Earnings management is the usage of accounting principles to make a company's financial statements look better. Many judgments are made by management regarding accounting rules and principles. Board of director's play an integral role in conducting earnings management practices that emerged as a result of agency issue between managers and shareholders. The research main goal is to evaluate the impact of firm characteristics on earnings management of the listed companies in Sri Lanka. To examine the effect of board on earnings management for a sample of 120 listed firms in Sri Lanka from 2015-2017. For the study, a sample of 120 companies has been selected (excluding the financial sector companies, to avoid distortion in results due to different financial fundamentals). Modified Cross Sectional (Model, 1995) has been employed for calculating discretionary accruals as proxy for earnings management. Furthermore, key board characteristics examined in the study include board independence, board size, CEO duality, gender diversity, and institutional ownership, while using firm size, leverage and profitability as control variables. The results portrayed important negative effect of board independence on earnings management, where the CEO Duality and institutional ownership had a particular positive impact on earnings management.

Keywords: Board Characteristics, Earnings Management (EM), Discretionary Accruals (DA)