

The Impact of Corporate Governance Board Characteristics on Earnings Management: Evidence from Listed Manufacturing Firms in Sri Lanka

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ABSTRACT

Introduction - During the past two decades some companies have failed to manage their internal controls and corporate structure effectively. The purpose of this study is to tap the study attempts to examine the actual compliance with the corporate governance board practices by selected listed manufacturing firms in Sri Lanka and more important to examine the relationship between corporate governance board theories and their effect on earnings management.

Design/Methodology/Approach - This study incorporated with agency theory sustains a theoretical foundation for the need for corporate governance best practices in controlling earnings management whereas corporate governance variable comprises five types of board characteristics including board independence, CEO duality, board meetings, board size and board members with financial expertise, financial leverage and firm size considered as the control variables. Although there are number of studies done to identify the impact of corporate governance board characteristics on earnings management, there are contradictory results. The research has adopted a deductive research method and the study selected 24 listed manufacturing firms during the period of 2012 to 2019. Also panel least square regression method has initially used to analyse the collected data.

Findings - The study found that board independence, directors in the board having financial, accounting expertise has a negative significant impact on real earnings and board size and firm size has a positive significant impact on real earnings. CEO duality, board meetings and financial leverage are not individually significant to the model.

Conclusion - The study fulfils the existing local research gap in the area of board characteristics on earnings management in Sri Lanka. These findings will help for future studies relating to corporate governance board characteristics on earnings management.

Keywords: *Corporate Governance Board Characteristics, Board of Directors, Real Earnings, Manufacturing Sector, Panel Data.*