

Applied Science Private University
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Master's in Accounting Program



The Effectiveness of Boards of Directors in Constraining Real Activities Earnings Management

كفاءة مجالس الإدارة في الحد من إدارة الأرباح من خلال الأنشطة الفعلية

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Abstract

This study aims to examine the effectiveness of board of directors in constraining real activities earnings management on the Jordanian market. In this study four independent variables are used to measure board characteristics including chief executive officer-chairman (CEO) duality, board size, directors' qualifications, and number of board meetings, and three proxies for the measurement of real activities earnings management using the model of Roychowdhury (2006) that consist of abnormal cash flows from operations, abnormal discretionary expenses, and abnormal production costs. In order to reach the objective of the study, all financial and non-financial data for 42 manufacturing companies listed on Amman Stock Exchange for the period 2012-2016 are tested through descriptive analysis as well as the testing of the hypothesis through multiple regression analysis. Findings reveal a significant positive association between number of board meetings and all 3 proxies used to measure real activities earnings management, a positive association between CEO duality and abnormal production costs as well as abnormal discretionary expenses. Additionally, the study finds no evidence of an existing relationship between board size, director qualifications and real activities earnings management. These findings may help in broadening the scope between board characteristics and real activities earnings management especially in the Jordanian market. Also, in raising awareness to the corporate governance characteristics as well as the possibility of adjusting corporate governance mechanisms that may eventually lead to the constraining of such harmful practices.

Keywords: Board characteristics, CEO duality, Board size, Directors' qualifications, Board meetings, Real activities earnings management.

