

The Impact of Corporate Governance on Earnings Management in Listed Manufacturing Companies in Sri Lanka

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Abstract

Earning Management is the very important indicator to any organization as some managers manipulate earnings and the financial statements do not present according to the true and fair value. This Study objective is to analysis the relationship between corporate governance and earning management in listed manufacturing companies in Sri Lanka. C.E.O Duality (CD), Board Independence (BDIN), Board Members with Financial Expertise (BDFX), Number of Board Meeting (BDMEET), Board Size (BDSIZE) used as the Main indicator of Corporate governance and Firm Size (SIZE) and Return on Asset (ROA) used as control variables. Then, Discretionary Accrual (DA) is applied as the Earning Management indicator. The study used secondary data of all Manufacturing Company from 2013 to 2017. Data were analyzed using regression analysis and E-Views packages. The findings of the study showed that CEO duality and board size are negatively and insignificantly associated with earnings management. That depict firms which have two separate positions for Chief Executive Officer and Chairman are more effective in reducing earning management than firms which do not. Also, firms with large number of directors have lessor amount of earnings management than firms with small board size.

Keywords: Corporate Governance, Earning Management, Discretionary Accrual (DA)