

# The Impact of Selected Corporate Governance Variables in Mitigating Earnings Management in the Philippines

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Given the increasing importance of corporate governance in the Philippines, this study attempts to explain the role of selected governance variables related to a company's board of directors in mitigating earnings management in the country. Using the financial statements of publicly listed companies and a modified measurement model, the findings revealed that the holding of multiple directorial positions by the independent directors, and the managerial ownership of the board are significant enough to limit the incentives for earnings management. Moreover, firm size and return on assets were identified to have explanatory significance among the controlling factors.

**Keywords:** Corporate governance, business ownership, financial statements

Financial reporting seeks to communicate accounting information in assisting users to make relevant business decisions given the company's financial position and performance. Such information depicting the financial and economic realities affecting the firm is presented in the financial statements, where the prerogative of exercising judgment in disclosing data derives from management. The proficiency and knowledge of managers in business serve as the key towards the usefulness of information that will aid the decision-making activity of users.

One of the ways that managers use prerogatives pertains to discretionary reporting of a company's earnings. The disclosure of earnings influences the value of the firm and the decisions of its stakeholders. Yet, in recent years, such reporting

has been abused and was subjected to a host of debacles that shocked the entire business world. Enron, WorldCom, Tyco, and even the untimely demise of Arthur Andersen are some of the popular fiascos resulting from the manager's judgments that misled users about their reported earnings, probably to meet their own personal objectives and/or to avail of incentives associated with such discretionary exercises.

These events triggered increased scrutiny of earnings management (EM) in accounting research. The extant literature on EM focuses on discretionary accruals (DACC) and on measuring the EM component of these accruals. Unraveling the difficulty of justifying this accounting technique took place when attempts to measure EM integrated proxies that could detect or explain the

existence of DACC such as disclosures, firm events, and political activities. It then evolved further on restraining EM by various factors; one of them is through the emergence of corporate governance initiatives that reshaped the global business arena.

With the limited local studies on this accounting phenomenon and the increased importance of corporate governance, this study attempts to assess the role of corporate governance practices, particularly those involving the board of directors (BOD), in mitigating the existence of EM in the Philippines. It aims to provide significant contribution as it recognizes the importance of corporate governance in promoting the integrity of financial reporting and in harmonizing the objectives of both the company's management and its stakeholders.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT FOR THE BOARD OF DIRECTORS

The Philippine Securities and Exchange Commission's Code of Corporate Governance (2002) stated that the Board of Directors (BOD) is responsible for governing the firm through an objective, independent check on its management. Solomon and Solomon (2004) argued that there should be accurate and free-flowing information going in and out of the board to promote a healthy, functioning corporate body; more than just assuming responsibility for the financial statements (also Vander Bauwhede & Willekens, 2003).

While there are other BOD characteristics that may have mitigating effects on EM, such as, financial education and experience, frequency of board meetings and others, these variables were not used. With the issuance by The World Bank (2006) of a partially observed disclosure and transparency of corporate governance in the Philippines, it can be inferred that firms choose non-disclosure of information that is not required. The Philippine SEC Code of Corporate Governance (2002) has provided one example.

For one, the SEC Code of Corporate Governance has indicated that to monitor compliance with the requirement on board meetings and quorum,

“...corporations *may*, at the end of every fiscal year, provide the Commission with a sworn certification that the foregoing requirement has been complied with” (p. 10, emphasis added).

Inasmuch as we intend to include all BOD characteristics that significantly influence the level of EM, we include characteristics that were highlighted by Saleh, Iskandar, and Ramat (2005). This study discusses these variables of interest with some related literature to set their relationship with EM.

### *Board Size*

Although a large enough board is essential to carry out the oversight role effectively (TSE Committee on Corporate Governance in Canada, as cited in Chtourou, Bedard, & Courteau, 2001), there are issues that larger boards create increased disparity between board members in effectiveness and expertise (Jensen, 1993; in contrast with Dalton, Daily, Johnson, & Ellestrand, 1999). In addition, there is some confusion whether larger board size enhances reliability of financial reporting (Chtourou et al., 2001).

Dalton et al. (1999) stated that larger boards have the ability to bring greater expertise to enhance performance; thus, it has a negative relationship with EM. This contrasts the observed relationship by Rahman and Ali (2006). With the Philippine SEC Code of Corporate Governance's (2002) rule that the BOD should be composed of at least five but not more than 15 members selected by the shareholders, this study hypothesizes the following:

*Alternative Hypothesis (Ha<sub>1</sub>): The size of the organization's board of directors is negatively related to earnings management in the Philippines.*

### ***Percentage of Independent Directors***

Independent directors act as monitors with the view of promoting the best interests of the firm (TSE Committee on Corporate Governance in Canada, as cited in Chtourou et al., 2001). Having a sufficient number of these individuals supports the required control functions to prevent collusion of interests with shareholders (Fama, as cited in Ebrahim, 2007). Ebrahim (2007) found a negative relationship between the level of DACC and the percentage of independent directors in the board, as more independent members are believed to more effectively protect the interests of shareholders. Yet, Chtourou et al. (2001) and Rahman and Ali (2006) noted an insignificant relationship and concluded that the board is ineffective in discharging its duties due to management's dominance. In the Philippines, the SEC Code of Corporate Governance (2002) states that public companies shall have at least two independent directors or a number of independent directors comprising at least 20%.

*Alternative Hypothesis ( $H_{a_2}$ ): The percentage of the independent members of the board is negatively related to earnings management in the Philippines.*

### ***Split of the Chairman's Role and the Chief Executive Officer's Role***

Solomon and Solomon (2004) emphasized that governance practices promote control among the board; thus, splitting the Chairman of the Board and CEO roles would reduce agency problems and improve performance since there will be an alignment of shareholder and management interests. Moreover, such separation promotes the balance of power and authority in the organization (Donaldson & Davies, as cited in Solomon & Solomon, 2004).

Dechow, Sloan, and Swinney (1995) revealed that the undivided role of the individual as the CEO and as the Chairman of the Board increases the likelihood of the firm to be subjected to

enforcement actions by the U.S. SEC for alleged violation of Generally Accepted Accounting Principles (GAAP). Conversely, Chtourou et al. (2001) noted an insignificant relationship between the separation of the two roles and the level of EM. It would be interesting to test this relationship in the local setting.

The Philippine SEC Code of Corporate Governance (2002) stated that the role of the Chairman and the CEO should be separated to ensure an appropriate balance of power, increased accountability, and greater capacity for independent decision-making through a system of checks and balances where judgments are carried out and all views are considered. Sarkar, Sarkar, and Sen (2006) did not come up with an *a priori* direction of EM on this matter because of disputes between compensation-related motives of equity grants and limits on performance bonuses. While they used the duality of the roles in their study, this study hypothesized the relationship of the split Chairman/CEO roles and EM in the Philippines.

*Alternative Hypothesis ( $H_{a_3}$ ): The separation of the role of Chairman and CEO is negatively related to earnings management in the Philippines.*

### ***Multiple Directorial Positions***

Chtourou et al. (2001) argue that there is an active market for managerial labor that rewards directors with incentives as a result of increased competence and competitiveness brought about by their exposure in outside directorial positions. Such exposures permit the acquisition and sharing of the best governance practices to effectively oversee the firm. Still, Sarkar et al. (2006) noted a decreasing level of corporate governance when the independent directors are busy with additional directorial positions in other companies. They argued that the busyness of directors outside the firm may lead to income-increasing EM.

The Philippine SEC Code of Corporate Governance (2002) allows members of the BOD of one firm to hold directorial positions in multiple

other firms, subject to the guidelines of having a limit on the number of directorial positions that will depend on the individual's capacity to perform his duties diligently. Given these provisions, this study hypothesized that:

*Alternative Hypothesis ( $H_{a_4}$ ): Holding multiple directorial positions outside the firm is negatively related to earnings management in the Philippines.*

### **Managerial Ownership**

Jensen and Meckling (as cited in Saleh et al., 2005) noted a possible conflict of interest between management and stakeholders when a line is drawn between stock ownership and control over firms. This provides incentives for managers to increase their wealth through EM and therefore, an increase in managerial ownership would unite the interests of both sectors. According to Warfield, Wild, and Wild (as cited in Saleh et al., 2005), increased ownership by directors better explains earnings to negatively associate with EM since they are less likely to support actions that would reduce shareholders' wealth. The relationship between managerial ownership and EM is tested using the following hypothesis:

*Alternative Hypothesis ( $H_{a_5}$ ): The percentage of managerial ownership in the firm is negatively related to earnings management in the Philippines.*

### **RESEARCH DESIGN AND SAMPLING METHODOLOGY**

In this study we use a causal or explanatory approach motivated by the "No-Specific Event, Two Samples on a Given Period" context of EM studies presented by Stlowy and Breton (2004) where some data will be treated using dummy variables. In addition, the judgment technique is adopted in the sampling methodology since prior EM literature has identified the firms that would

provide a fair measure of DACC without any significant influence by unique financial reporting framework and regulatory environment.

From the population of 251 listed Philippine companies from 19 industries as of March 2008, a final sample of 114 firms was chosen after eliminating those that did not meet certain criteria. Financial and regulated sectors are excluded because of the difficulty in measuring DACC among financial entities (Chtourou et al., 2001) and the uniqueness of the financial reporting practices for regulated firms (Vermeer, 2003). In addition, firms having a fiscal reporting period other than December 31, different reporting currency, and incomplete data are also excluded. Lastly, the study excludes remaining firms in industries having less than seven observations in order to obtain representative parameter estimates for the sample (Sarkar et al., 2006). We use an observation rule as our filter, similar to DeGeorge, Ding, Jeanjean, and Stolowy (2007). Necessary data is obtained from SEC 17A for December 31, 2006 along with comparative information from 2005 restated figures.

### **MODEL DEVELOPMENT AND METHOD OF DATA ANALYSIS**

A cross-sectional analysis was conducted to bring the sample size at the highest possible level where survivorship bias among successful firms at the end of the observation period can be prevented (Rahman & Ali, 2006). Specifically, the working capital accruals model of estimating DACC was utilized to support the rationale of Bradshaw, Richardson, and Sloan (2001) that accruals would achieve a fair state over time wherein variations will be minimized when depreciation is excluded. This recognizes the fact that managers exercise discretions in the reporting of actual earnings in any period (Teoh, Welch, & Wong, 1998). As stated in Rahman and Ali (2006), total accruals (TACC), represented by the ratio of total non-cash working capital accruals over total assets of a firm in the previous period, are expressed as:

$$TACC_{it} = \frac{TWACC_{it}}{TA_{it-1}} = \frac{\Delta NCCA_{it} - \Delta CL_{it}}{TA_{it-1}} \quad (1)$$

where:

- $TWACC_{it}$  = Total working capital accruals for firm  $i$  at year  $t$ ;  
 $\Delta NCCA_{it}$  = Change in non-cash current assets for firm  $i$  at year  $t$ ;  
 $\Delta CL_{it}$  = Change in current liabilities for firm  $i$  at year  $t$ ; and  
 $TA_{it-1}$  = Total assets for firm  $i$  at year  $t-1$ .

For the nondiscretionary component of accounting accruals, this study modified the DeFond and Jiambalvo (1994) cross-sectional Jones (1991) model by excluding the gross property, plant, and equipment and the change in long-term debt. Evident in paper of Rahman and Ali (2006), nondiscretionary accruals (NDACC) are expressed as:

$$NDACC_{it} = \left( \frac{TWACC_{it}}{TA_{it-1}} \right) = \beta_0 \left( \frac{1}{TA_{it-1}} \right) + \beta_1 \left( \frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}} \right) + \varepsilon_{it} \quad (2)$$

where:

- $\Delta REV_{it} - \Delta REC_{it}$  = Change in revenues less change in receivables for firm  $i$  at year  $t$

Note that each variable is deflated by total assets of the firm in the previous period. Consistent with Jones (1991), Rahman and Ali (2006) noted that such method aims to reduce heteroscedasticity issues in which the variance of the dependent variable differs across the data. Such procedure of generating Ordinary Least Squares (OLS) estimates for NDACC per industry is based on the argument of Teoh and Wong (1993) that collective studying of firms within an industry reduces the variation of observations across these firms. Moreover, since industry members are

perceived to engage in analogous transactions and to use similar accounting treatments, any noise created in the model can be attributed to the industry affiliation of the firm. The firm's DACC was computed as the difference between the firm's TACC and the NDACC.

$$DACC_{it} = \left[ \frac{TWACC_{it}}{TA_{it-1}} \right] - \left[ \hat{\beta}_0 \left( \frac{1}{TA_{it-1}} \right) + \hat{\beta}_1 \left( \frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}} \right) \right] \quad (3)$$

This experiment was based from the notion that the modification by Dechow et al. (1995) on the Jones model will exhibit greater statistical power over the other models as it exhibits lower standard errors. It also exhibits estimates that are more powerful than by using the original Jones model.

Mitra and Rodrigue (2002) argued that the DACC models should include controlling variables to redefine the relationship between accruals arising from management discretion and the variables of interest. Hence, five control variables were integrated in the model as:

$$DACC_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BPIND_{it} + \beta_3 SPLITCC_{it} + \beta_4 MDIRPS_{it} + \beta_5 MOWN_{it} + \beta_6 DEBT_{it} + \beta_7 AUDTYPE_{it} + \beta_8 FSIZE_{it} + \beta_9 ROA_{it} + \beta_{10} LABRU_{it} + \beta_{11} SUSREH_{it} + \varepsilon_{it} \quad (4)$$

where:

- $DACC_{it}$  = Discretionary accruals of firm  $i$  in year  $t$ ;  
 $BSIZE_{it}$  = Board size of firm  $i$  in year  $t$ ;  
 $BPIND_{it}$  = Percentage of independent directors of firm  $i$  in year  $t$ ;  
 $SPLITCC_{it}$  = A dummy variable equal to 1 if there is a split between the Chairman and CEO of firm  $i$  in year  $t$ , 0 if otherwise;  
 $MDIRPS_{it}$  = A dummy variable equal to 1 if firm  $i$  has at least one independent director who holds three or more outside directorial positions, 0 if otherwise;

$MOWN_{it}$	=	Percentage of managerial ownership of the board of directors and key management personnel of firm $i$ in year $t$ ;
$DEBT_{it}$	=	Leverage ratio of firm $i$ in year $t$ ;
$AUDTYPE_{it}$	=	A control dummy variable equal to 1 if firm $i$ is audited by a Big4 accounting firm, 0 if otherwise;
$FSIZE_{it}$	=	A control variable measured as the $\log_{10}$ of 2006 total assets of firm $i$ ;
$ROA_{it}$	=	A control variable using the return on assets of firm $i$ in year $t$ ;
$LABRU_{it}$	=	A control dummy variable equal to 1 if firm $i$ has an existing labor union or collective bargaining agreement (CBA) with its employees, 0 if otherwise; and
$SUSREH_{it}$	=	A control dummy variable equal to 1 if firm $i$ was suspended in the trading of its securities or is under rehabilitation as identified by the PSE; 0 if otherwise.

## RESULTS

Two panels of descriptive statistics are presented in Appendix A. Panel A shows the summary statistics of all dummy variables. As can be seen, 66 firms appointed individuals to assume the Chairman and CEO roles separately. In addition, majority of the firms has independent directors holding three or more outside directorships, and approximately 82% of the firms were audited by the Big4 auditors of the country

(PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst & Young, and KPMG). In terms of labor relations, 82 firms have no existing labor unions or CBAs. The governance and AUDTYPE dummy variables are skewed to the right when presented in a probability distribution function (PDF) with asymmetric evidence. Moreover, the governance and LABRU variables have platykurtic PDFs with kurtosis values less than 3.

Panel B presents the descriptive statistics of the remaining governance and control variables. One firm has only two members in the BOD. Another firm has no independent directors in their board. One firm has 14 members in the board and another firm has 75% independent directors in their governance body. Except for FSIZE and ROA, other variables are skewed to the right because of its positive values, while MOWN, DEBT, and ROA are considered leptokurtic PDFs. The study also notes a greater variation of observations in the BPIND and MOWN relative to its mean value.

Separate regressions for NDACC per industry were performed to assess the statistical significance of the OLS estimates of  $1/TA$  (L1TA) and  $\Delta REV - \Delta REC$  (LREVREC) for each industry at  $\alpha = 0.05$ . When the p-value falls beyond  $\alpha$ , the OLS estimate was treated as not statistically different from zero and hence, was not considered in computing NDACC to finally measure DACC. For L1TA, only the Holdings, Information Technology, and Mining will have their proxy values multiplied by their respective OLS estimates of L1TA. On the other hand, only the Property industry will have its LREVREC proxy values multiplied by its OLS estimate. Thus, the TWACC of the remaining firms equals the computed DACC of that entity.

The DACC was then regressed using the model, whose results were presented in Appendix B. BSIZE has exhibited a positive OLS estimate among the governance variables with a value of 0.0074. While the other governance variables have negative coefficients that support our *a priori* expectations, only MDIRPS and MOWN were identified to be statistically significant at 0.05 and 0.01 levels, respectively. For the control variables, DEBT, ROA, and SUSREH have generated OLS

estimates with p-values falling within the acceptance region. Only FSIZE exhibited statistical significance at  $\hat{\alpha} = 0.10$ , while ROA is significant at  $\hat{\alpha} = 0.01$ .

It is also shown in Appendix B that the coefficient of multiple determination (R-squared) explains almost 20.5% of the variation in the level of DACC by the variation among the corporate governance and control variables. However, considering the R-squared adjusted for the degrees of freedom signifies that the variation in the corporate governance and control variables can explain only an approximate 12% of the variation in DACC. This can be attributed to the limited cross-sectional data that this study had obtained given the very stringent elimination process, plus the fact that the adopted sampling plan began with a small population of publicly-listed firms. Such observation is consistent with Rahman and Ali (2006) that there are still other factors that can explicate the disparity in the level of EM. Nevertheless, we believe that no misspecification occurred in the development of the model because these variables were already identified by Saleh et al. (2005) as the most important mitigating factors of EM.

Consistent with Jenkins (2002), this study provides noteworthy evidence on the importance of using controlling factors in cross-sectional EM models since they increase the power of the model to explain the variation in DACC. The Analysis of Variance (ANOVA) results of the joint test revealed the statistical significance of the model at  $\hat{\alpha} = 0.05$ . We do not find the presence of multicollinearity, heteroscedasticity, or autocorrelation problems in our econometric models.

Considering the joint regression estimates for the DACC EM model in the Philippines, the study shows that for a firm with at least one independent director who has more than three outside directorial positions would likely to reduce DACC by 0.1819 since these directors would pool in the organization the best management and governance practices for the board to effectively perform its oversight role and to improve the financial reporting process. In contrast with Sarkar et al. (2006), the

business of such directors by assuming directorships in other companies is effective in reducing EM. Thus, this poses a challenge for the independent board members to remain diligent in exposing themselves to the best governance practices.

In terms of managerial ownership, a 1% increase in MOWN reduces DACC by 0.006. This negative relationship is profoundly visible as it provides an impression that fostering an increase of ownership by the board members and by the key management personnel to a sufficient level will reduce share value eroding to manage earnings.

Among the control variables, ROA is significant to explain the variation in DACC that a 0.01 increase in ROA would increase discretionary accruals by 0.6153. While this observation is inconsistent with Rahman and Ali (2006) because ROA is insignificant among Malaysian firms, it suggests that in the Philippines, this measure of performance is a better indicator of the variation of EM rather than using leverage that directly measures the exposure of the firm to bankruptcy and litigation risk.

If FSIZE is measured as the peso value of 2006 total assets, the skewness of data is extremely positive with a non-normal distribution and there is a need to normalize the variation in all observations. Watts and Zimmerman (1986) noted a conventional wisdom that large firms are more likely to choose income-decreasing earnings management in the current period due to its exposure to political sensitivity. Although it comes with greater costs, the exposure package also has political benefits such as government protection and relief that offsets those costs.

Because political visibility is endemic among large firms, no solid generalizations can be drawn among small firms despite the fact that Lee and Choi (2002) identified the latter to manage earnings more frequently. Thus, FSIZE needs to be measured in its relative value (e.g.,  $\log_{10}$  of total assets) to eliminate the discrimination between large-sized and small-sized entities (Majocchi, Bacchiocchi, & Mayrhofer, 2005) and to reduce its skewness (Albuquerque, 2007). We note in this

study that an increase in the relative value of FSIZE results to a decrease in the level of DACC by -0.087. Given the significance at  $\alpha = 0.10$ , it suggests that FSIZE is a notable indicator of the existence of EM in the Philippines. This generalization is consistent with Watts and Zimmerman (1986) regarding the size hypothesis, as larger firms are susceptible to greater political risk that carries greater costs.

The coefficient for AUDTYPE is found to be insignificant. Little emphasis is placed on this variable because in consonance with the view of Lee and Choi (2002), the association between AUDTYPE and DACC loses significance when FSIZE is also controlled. While the coefficient for LABRU and SUSREH are insignificant in this study, the strength of association of these variables with EM may become significant in event studies context, as Peltier-Rivest and Swirsky (2000) noted that such phenomenon is evident among healthy firms during the period of collective bargaining agreements or labor union negotiations.

## CONCLUSIONS AND RECOMMENDATIONS

In this study we conclude that the total working capital accruals model can be an appropriate tool to measure the estimated level of discretionary accruals since empirical evidence demonstrates a minimal variation in those accruals and residuals across observations. Consistent with prior literature, a cross-sectional analysis using accruals arising from non-cash current assets and current liabilities provides evidence that reported earnings are most likely to be manipulated in the short term.

In addition, this study supplies evidence that among the characteristics related to the board of directors used in the study, the holding of multiple directorial positions outside the entity by independent directors and the managerial ownership of the board and key management personnel are the most influential governance variables that can mitigate EM in the country. For control variables, the return on assets was noted

to be an indicator of the firm's exposure to business and economic risks that may provide EM opportunities. Firm size is also relevant to the firm's exposure to political sensitivities that induces stricter regulation and greater costs. We further conclude that a blend of corporate governance and control variables can create a suitable model to explain this accounting phenomenon. This model may therefore be useful in minimizing earnings management.

This study provides a starting point to further explore EM in the Philippines using other board characteristics such as the level of financial/accounting competence and cultural orientation of board members, and the frequency of meetings. It also poses challenges to analyze the impact of certain events on EM using the event studies methodology considering the pre-, during, and post-occurrences of these events. This study may also serve as an instrument for policy recommendations that will bring forth improvements in the practice of corporate governance in the Philippines, such as, revising the SEC Code of Corporate Governance that was passed in 2002 to mandate all firms to submit all disclosures identified in the Organisation for Economic Co-operation and Development (OECD, 2004) guidelines on Corporate Governance, a review of the "2 or 20 percent rule" for the inclusion of diligent and highly-exposed independent board members, and for increased protection of "whistleblowers".

We recommend that the Philippine Stock Exchange work together with the SEC towards the enforcement of corporate governance policies for listed firms, as the Institute of Corporate Directors continuously assess the capability of professional directors as part of the criteria for admission into the corporate boards. In addition, the Board of Accountancy and the Philippine Institute of CPAs are encouraged to contribute to the strengthening of the corporate governance initiatives by structuring an audit program that will identify and penalize firms suspected of violating governance standards. In sum, we contend that the responsibility of ensuring successful corporate

governance lies with the company's board of directors, who directs and oversees the firm's activities to minimize the likelihood of earnings management. Moreover, the combined efforts of all sectors to strengthen corporate governance produce a myriad of infinite solutions to address this phenomenon. After all, no one dares to envision the occurrence of another debacle that once tarnished the integrity of the financial reporting system and of the accountancy profession.

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## Appendix A

### Descriptive Statistics of corporate governance and control variables

#### Panel A: Dummy Variables

	Governance Variables				Control Variables					
	SPLITCC		MDIRPS		AUDTYPE		LABRU		SUSREH	
Measure	Separate Chair & CEO (1)	Joint (0)	>3 out director post (1)	<3 posts (0)	Big4 (1)	Non-Big4 (0)	Union/CBA (1)	None (0)	Suspend /Rehab (1)	Normal Trade (0)
Count*	66	48	72	42	93	21	32	82	10	104
%	57.89	42.11	63.16	36.84	81.58	18.42	28.07	71.93	8.77	91.23
Minimum		0		0		0		0		0
Mean		0.58		0.63		0.82		0.28		0.09
Median		1		1		1		0		0
Maximum		1		1		1		1		1
Skewness		-0.3241		-0.5528		-1.6510		0.9891		2.9538
Kurtosis		-1.9291		-1.7249		0.7385		-1.0401		6.8449
Variance		0.2459		0.2347		0.1516		0.2037		0.0807
Std. Dev.		0.4959		0.4845		0.3894		0.4513		0.2841

Note. \*For Count, total n observations per variable = 114.

**Panel B: Non-Monetary Variables**

Measure	Governance Variables			Control Variables		
	BSIZE	BPIND	MOWN	DEBT	FSIZE	ROA
	No. of members	% of independent directors	% owned by BOD & key mgt.	Leverage ratio	Log <sub>10</sub> of total assets	Return on Assets
Minimum	2	0.00	0.0000002	0.0004	6.3299	-1.1444
Mean	8	26.5048	12.4650	0.5963	9.2923	0.0187
Median	8	25.00	2.0196	0.4107	9.3006	0.0263
Maximum	14	75.00	86.8825	6.2015	11.5436	0.8250
Skewness	0.4242	0.7718	2.0458	4.2806	-0.6258	-1.2094
Kurtosis	0.1558	1.7524	3.0674	23.1824	1.1881	11.9364
Variance	5.1548	149.2209	495.5129	0.6640	0.9509	0.0428
Std. Dev.	2.2704	12.2156	22.2601	0.8149	0.9751	0.2069

**Appendix B**  
**Summary Regression Results for DACC Joint Testing**

Class	Variable	OLS Estimate	Standard Error	t-stat	p-value
Constant	C	1.072341	0.471460	2.274510	0.0250
Governance	BSIZE	0.007391	0.019811	0.373066	0.7099
	BPIND	-0.000933	0.003438	-0.271493	0.7866
	SPLITCC	-0.065780	0.086444	-0.760957	0.4484
	MDIRPS	-0.181940	0.089658	-2.029262	0.0450**
	MOWN	-0.006279	0.001865	-3.366473	0.0011***
Control	DEBT	-0.034808	0.053684	-0.648400	0.5182
	AUDTYPE	-0.017754	0.111357	-0.159430	0.8736
	FSIZE	-0.086853	0.049035	-1.771248	0.0795*
	ROA	0.615346	0.213148	2.886947	0.0047***
	LABRU	0.041658	0.099180	0.420023	0.6754
	SUSREH	-0.125734	0.152434	-0.824843	0.4114

S.E. of Regression = 0.422091; R-squared = 0.204767; Adjusted R-squared = 0.119006.

Note: \* statistically significant at  $\alpha = 0.10$ .  
 \*\* statistically significant at  $\alpha = 0.05$ .  
 \*\*\* statistically significant at  $\alpha = 0.01$ .